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# 1994 ANNUAL REPORT

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## Office of the Provincial Auditor



ACCOUNTING  
ACCOUNTABILITY  
VALUE FOR MONEY

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THE HONOURABLE  
DAVID WARNER, M.P.P.

Speaker of the Legislative Assembly of Ontario

Dear Mr. Warner:

I am pleased to transmit my Annual Report for submission to the Assembly in accordance with the provisions of section 12(1) of the *Audit Act*.

A handwritten signature in black ink, reading "Erik Peters".

Erik Peters, FCA  
Provincial Auditor

November 15, 1994

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# Overview

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## IMPROVING FINANCIAL INFORMATION FOR THE LEGISLATIVE ASSEMBLY

### IMPLEMENTING IMPROVED ACCOUNTING PRINCIPLES IN THE PROVINCE'S FINANCIAL STATEMENTS

It is with great pleasure that I am able to report that my audit opinion on the Province's Financial Statements in the *Public Accounts* for the year ended March 31, 1994 is clear of qualifications or reservations. The *Audit Act* prescribes that I shall report if the accounting principles have been applied on a basis consistent with that of the preceding year together with any reservations I may have. I have met this reporting requirement by adding the following paragraphs after the audit opinion in my Auditor's Report on the Financial Statements of the Province:

*These Financial Statements have been prepared, as urged by me last year, on an accounting and reporting basis which is in accordance with standards for good practice in accounting and financial reporting by Canadian governments. As a result, in these statements for the year ended March 31, 1994:*

- *expenditures and revenues are reflected in the determination of the deficit when they were incurred or earned, respectively, whether or not such transactions have been settled by the receipt or payment of cash or its equivalent;*
- *organizations owned or controlled by the government are included on an appropriate basis, in order to provide an accounting for the full nature and extent of the financial affairs and resources for which the government is responsible; and*
- *the accumulated deficit is adjusted for the new accounting and reporting basis as at April 1, 1993.*

With these improvements made, I would like to express my appreciation to the staff members of the Ministry of Finance and of my Office for the hard work that went into bringing them about.

## IMPROVING FINANCIAL INFORMATION FOR DECISION MAKING

In the 1994 *Ontario Budget*, the Minister of Finance confirmed the government's commitment to deficit reduction:

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*The steps we have taken to control spending, to cut out waste and duplication and to find new ways to provide services more efficiently have allowed us to reduce the deficit and keep it going down.*

The debilitating impact of public debt resulting from deficits has been much discussed and is well known. It is therefore very important that the hard decisions necessary to reduce the deficit, and to keep it going down, be based on reliable financial and operational information.

Now that the preparation and presentation of the Financial Statements of the Province for the year ended March 31, 1994 are on a more appropriate accounting basis, a clearer picture of the actual deficit for the year then ended and of the actual accumulated deficit and the public debt as of that date has emerged.

However, most of the key financial decisions by the legislators are based on the financial information presented in the Budget which traditionally is presented for the upcoming year in the spring. While we do not and should not audit the *Budget*, we believe significant improvements are required in presenting the "actual" interim unaudited results (deficit) to the Legislature. Transactions should be included in the deficit in accordance with their financial reality, even in statements using the former accounting rules, which are still used in preparing the *Budget*. In the following segment, *Consolidated Revenue Fund (CRF) Deficit*, which is summarized from the details we provide in Chapter Four of this Report, we illustrate the principal reasons why we believe improvements are required.

Essentially the CRF deficit is, with the advent of the new Financial Statements which include the CRF and the results of government organizations and enterprises, no longer the deficit of the Province. Decisions about the financial future would be enhanced if they were based on clearer and fuller information on where the Province has been financially, and what its current position is.

## **CONSOLIDATED REVENUE FUND DEFICIT**

The *Budget* for the 1993/94 fiscal year was tabled in May 1993, well before my opinion on the Consolidated Revenue Fund (CRF) Financial Statements and related recommendations. Results for the 1993/94 fiscal year were therefore budgeted for, as in past years, on the modified cash basis of accounting and encompassed the operations of the CRF only.

In this connection, unaudited CRF financial results for the 1993/94 fiscal year were publicly reported on page 87 of the 1994/95 *Budget*, as part of the June 30, 1994 quarterly issue of the *Ontario Finances* brochure and also in the new Financial Statements appearing in the 1993/94 *Public Accounts* which were tabled on October 20, 1994. These unaudited results, for the CRF only, were prepared on a basis consistent with the *Budget*.

However, we are of the view that the 1993/94 unaudited CRF deficit, as reported, was understated by approximately \$1.6 billion, as follows:

	(\$ billions)
Unaudited CRF deficit, modified cash basis, as reported	9.278
Add: Items that should have been included in determining the reported deficit	
1) Capital grants to universities, school boards, hospitals, municipalities, transit authorities and capital investment corporations incorrectly treated as loans receivable	.932
2) Sale of office buildings to Ontario Realty Corporation, a wholly-owned Crown agency, incorrectly treated as revenue (net)	.229
3) Funds received from Toronto Area Transit Operating Authority (GO Transit) for sale and repurchase of rolling stock, incorrectly treated as revenue	.424
Impact on CRF deficit of items not reported correctly	1.585
Unaudited CRF deficit, modified cash basis, that should have been reported	10.863

Full details of the foregoing adjustments, all of which relate to the concept of "substance over form" (i.e., transactions should be accounted for and presented in accordance with their financial reality), are provided in Chapter Four of this Report. It should be noted that, in the preparation of the Province's 1993/94 Financial Statements, each of the above items was properly treated and included as part of the deficit.

## FUTURE CONSIDERATIONS

### FOR 1994/95

We note that according to the 1994 *Budget*, transactions similar to those summarized above, and exceeding \$2 billion, are planned for the 1994/95 fiscal year. We therefore urge that the government prepare a reconciliation with next year's unaudited actual deficit similar to that shown above to make readers aware of the more realistic unaudited actual CRF deficit.

### SUBSEQUENT TO 1994/95

The preceding, in my opinion, unnecessarily confusing situation could be avoided if, commencing with the 1995/96 fiscal year, accounting bases used in the preparation of budgets were consistent with those now used in the preparation of the Province's Financial Statements. This would be a major step towards clearly reporting to the Legislature, and therefore to the taxpayers, the *Budget* and actual financial performance information on a truly comparable basis.

Therefore, I continue to strongly advocate that the government adopt the same accounting policies for reporting budgeted and actual results and that the principle of substance over form be clearly applied. The difficult financial and program decisions which the Legislative Assembly has to make to cope with debt and deficit would then be based on a clearer picture of the financial performance and the financial condition of the Province.

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Additionally, as detailed in Chapter Two, I recommend that the controllership function be strengthened and given an appropriate, preferably legislated, framework within which to operate.

## CONCLUSION

As events showed, 1993/94 was a very good year in which to adopt the new accounting rules because their real net impact on that year's deficit was to reduce it by \$15 million, which is explained in detail in Chapter Four. However, in the overall picture, the size or direction of the net impact of implementing the Public Sector Accounting and Auditing Board recommendations is not as relevant as the future benefit of sounder financial information for the decision makers. The benefit to the decision makers in the Legislature, and therefore to the taxpayers, is that they will in future be able to make their decisions based on more financially realistic information. There is much work still ahead, especially in the financial planning area, but a significant and very positive step in the right direction has been taken this year by the Ministry of Finance.

## VALUE FOR MONEY AUDIT RECOMMENDATIONS

Because of the size and complexity of the Province's operations and administration, it is impossible to audit each program every year. Instead, the Office conducts selected audits in a cycle, so that all major programs are considered for review every five years. The contents of this *Annual Report* were selected by the Office's senior management based on criteria such as financial impact, significance to the Legislature, public sensitivity or safety, and adherence to good management practices (economy, efficiency, and effectiveness measures).

Before beginning an audit, Office staff meet with representatives of the auditees to discuss the focus of the audit in general terms. During the audit, Office staff maintain an ongoing dialogue with the auditee to review the progress of the audit and ensure open lines of communication. After the audit staff conclude their on-site work, a draft report is prepared, reviewed internally, and discussed with the auditee. A management response to our recommendations is received and incorporated into the final draft report. The Provincial Auditor and senior Office staff meet with the Deputy Minister or agency head to discuss the final draft report, and the auditee is given an opportunity to finalize the responses. Those responses are included in the report sections selected for this *Annual Report*. The Office is pleased to acknowledge the active co-operation of the staff of audited ministries and agencies throughout this year's process.

Under section 12 of the *Audit Act*, the Provincial Auditor is required to report annually through the Speaker of the Legislative Assembly.

Prior to the tabling of the *Annual Report*, separate and simultaneous lockups are arranged for members of the Assembly and their research staff, representatives of the media, and representatives of audited ministries and agencies. When the lockups conclude, the Provincial Auditor is available to answer the media's questions.

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Each year, the Standing Committee on Public Accounts selects sections of the Provincial Auditor's Annual Report for review, and calls upon representatives of the audited ministries to attend as witnesses.

## SUMMARY OF RECOMMENDATIONS

The following are summaries of the 13 audit reports on value for money audits contained in Chapter Three of this *Annual Report*. The auditees' responses in Chapter Three indicate that action has already been taken, or is planned, to implement many of our recommendations.

### 3.01 Ministry of the Attorney General Family Support Plan

The Family Support Plan is responsible for enforcing support and custody orders. This responsibility includes collecting and disbursing support payments and taking enforcement action on cases in default. For the 1993/94 fiscal year the Plan collected and disbursed about \$300 million. The Plan had about 126,000 registered cases, of which only 60,000 were either in full compliance or had a significant flow of funds. We assessed the adequacy of procedures to enforce support payments, and to measure and report on the performance of the Plan. Our recommendations included:

- that the Plan take more appropriate action on default cases, including improving its efforts to obtain garnishments or writs of seizure and sale when necessary;
- that proper documentation be maintained and that computer system deficiencies be overcome to improve support of enforcement efforts;
- that the Ministry work with the courts and legal community to make support order provisions more practical to enforce; and
- that the Ministry improve its measuring and reporting of the Plan's performance.

### 3.02 Ministry of Community and Social Services Child Welfare Services

Through the Child Welfare Services program, the Ministry of Community and Social Services funds 54 non-profit community-based children's aid societies. For 1993/94, payments to the societies totalled approximately \$352 million. This consisted of the federal and provincial governments' shares.

We noted that a number of our concerns in the areas of residential placement needs, foster care, effectiveness measurement and service planning hinged on the timely implementation of the policy directions stated in the Ministry's *Children's Services Policy Framework* document, released in May 1993. We also recommended that the Ministry improve its efforts towards early intervention and the prevention of the circumstances requiring the protection of children.

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### **3.03 Ministry of Community and Social Services Municipal Allowances and Benefits**

The purpose of this program, more commonly known as General Welfare Assistance (GWA), is to provide short-term financial assistance for a basic standard of living for individuals who are unable to provide for themselves. The provincial and federal governments' share of GWA payments increased over 300% from \$604 million in 1987/88 to \$2.8 billion in 1993/94. The number of GWA recipients and dependants increased from 195,000 to about 600,000 over the same period.

We recommended that the Ministry of Community and Social Services strengthen its monitoring procedures to ensure that the 350 municipalities that administer the GWA program comply with various legislated and policy requirements. We also recommended that the Ministry work with the municipalities to strengthen efforts to reduce abuse of the program, and that the Ministry improve the prevention, detection and collection of over-payments to recipients.

### **3.04 Ministry of Community and Social Services Violence against Women**

The Violence against Women program provides temporary emergency accommodation in community-based shelters for abused women and their children, as well as counselling, outreach, violence prevention and public education programs. Since program expenditures had increased by over 65%, from \$41.8 million in 1989/90 to \$69.5 million in 1993/94, our main recommendations were that the Ministry develop standards and guidelines for the delivery of the program and strengthen its measurement and evaluation of the achievement of program objectives so that temporary shelter and counselling are provided in the most cost-effective manner.

### **3.05 Ministry of Education and Training jobsOntario Training Program**

jobsOntario Training is a multi-year \$1.1 billion skills development and employment program intended to create up to 100,000 private-sector jobs by March 1995 for social assistance recipients and those who have been unemployed for a long period of time and are ineligible for, or have exhausted, their unemployment insurance benefits. By March 31, 1994, job placements totalled 33,000 and \$342 million had been spent. We assessed whether the Ministry had established processes to manage the program cost effectively. Although the Ministry has established several sound management practices and processes, we made recommendations to:

- refine efforts to assess the program's effectiveness; and
- further strengthen effectiveness and management processes of the Ministry's network of community-based brokers.

### **3.06 Ministry of Environment and Energy Water and Sewage Treatment Facilities**

There are 490 drinking water treatment plants and 415 sewage treatment plants in Ontario treating 4.5 million cubic metres of liquid each day. We assessed whether drinking water

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and sewage treatment met the Ministry's guidelines for protecting public health and the environment. Our recommendations included that the Ministry:

- give priority to follow-up on plants with significant compliance problems;
- take more effective remedial action for the sewage plants which discharged untreated or partially treated sewage or effluent, and for those experiencing serious extraneous flows or sludge management problems; and
- require that water conservation and system optimization measures be implemented in municipalities where possible before more expensive water or sewage expansion projects are approved for provincial funding.

### **3.07 Ministry of Health Community Health Programs**

The Community Health Branch of the Ministry of Health is primarily responsible for administration of the Community Health Centre program, the Health Service Organization program and the Comprehensive Health Organization program. We assessed whether community health programs were managed with due regard to economy and efficiency, and whether the effectiveness of the programs was measured and reported. Our recommendations included that:

- the Ministry improve its control of Community Health Centres' provision of medical services to patients without health cards; and
- the Ministry evaluate the Community Health Centre program's effectiveness before the program is expanded.

### **3.08 Ministry of Health Grants to Public Hospitals**

The Ministry of Health is responsible for the operational and capital funding of the province's 220 public hospitals, which provide acute, chronic, rehabilitation and specialty health care services. For the 1993/94 fiscal year, transfer payments to public hospitals totalled \$7.5 billion. We followed up on our 1991 audit and assessed the adequacy of procedures used by the Ministry to obtain reasonable assurance that value for money is being obtained. We found that improvements had been made and our recommendations included that:

- procedures be strengthened to ensure that funds spent by hospitals are managed prudently;
- accreditation reports be used to improve hospitals' performance; and
- action be taken so that district health councils can better plan and co-ordinate health care services in their communities.

### **3.09 Ministry of Housing Rent Regulation Program**

The Ministry of Housing's Rent Control Operations administers the *Rent Control Act*, which is intended to protect tenants from excessive rent increases, and to preserve and maintain adequate rental housing in Ontario. It also assists municipalities to administer the *Rental Housing Protection Act*, which regulates conversions and demolition of rental

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accommodations, as well as major renovations and repairs. We assessed whether procedures and controls were satisfactory to ensure that the program is delivered cost effectively and in accordance with the *Rent Control Act*. We also assessed whether there were satisfactory procedures to measure and report on the effectiveness of the program. Our recommendations included that the Ministry:

- carry out evaluations of the effectiveness of the Rent Regulation Program in meeting legislated objectives, and in assessing its impact on other housing assistance programs;
- improve the timeliness and cost effectiveness of application processing and consider less costly methods of resolving claims; and
- strengthen action to ensure that the province's stock of rental housing is adequately maintained.

### **3.10 Ministry of Natural Resources Forest Management**

Ontario's forests cover an area of about 80 million hectares, approximately 88% of which are owned by the Province. The forest management expenditures of the Ministry of Natural Resources totalled approximately \$200 million in 1993/94, including approximately \$100 million for regeneration activities. We assessed whether provincial forests were managed with due regard for economy, efficiency and operational effectiveness and whether the Ministry's performance was regularly monitored and evaluated. To help ensure that the Ministry meets its stated goal of long-term sustainable development of the Province's forest resources, our recommendations included that the Ministry:

- strengthen practices and procedures to ensure that decisions are based on sound financial information and that funds are more appropriately allocated;
- determine the nature and quality of Ontario's forests by updating its inventory so that activities can be appropriately geared to ensuring that the resource is adequately safeguarded; and
- strengthen its practices and procedures to ensure that harvested forests are regenerated more economically with the most appropriate species and that regeneration efforts are not wasted through insufficient survival assessments and tending.

### **3.11 Ministry of the Solicitor General and Correctional Services Ontario Provincial Police**

The Ontario Provincial Police (OPP) are responsible for policing certain highways and parts of the province which do not have their own police agencies. In addition, the OPP may be directed by the Solicitor General to undertake policing responsibilities normally done by a municipal force, or to provide assistance to a municipal police agency. We assessed whether the OPP had satisfactory procedures to measure and report on its effectiveness and whether various operations were carried out economically and efficiently. Our recommendations included that:

- policies and procedures be strengthened to improve community policing and traffic management effectiveness;
- more effective action be taken to enable uniformed staff to spend more time on proactive policing; and

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- the Ministry ensure more equitable administration and financing of OPP police services provided to municipalities.

### **3.12 Ministry of Transportation Driver Licensing and Control**

The Ministry of Transportation is responsible for driver licensing and control. The stated purpose of the "licensing" part of the *Highway Traffic Act* is to protect the public by ensuring that the privilege of driving is granted to, and retained by, only those individuals who demonstrate that they are likely to drive safely. We assessed the Ministry's compliance with legislation governing driver licensing and control, and the adequacy of procedures to measure and report on the efficiency and effectiveness of driver licensing and control activities. Our recommendations included that the Ministry:

- minimize the possibility of multiple driver's licences being issued to one person;
- strengthen the process to ensure that medically unfit drivers are not operating vehicles; and
- take more appropriate action on drivers with poor performance records to improve driving and reduce accidents on Ontario's roads.

### **3.13 Ministry of Transportation Municipal Roads Subsidies**

The objective of municipal roads subsidies is to provide for safe and efficient movement of people and goods and to provide financial and technical assistance to municipalities for the development, maintenance and operation of the municipal road network. For the 1993/94 fiscal year, the Ministry's funding for this program totalled \$708 million. We assessed whether adequate procedures were in place to ensure compliance with legislation and to measure and report on the performance of the program. Our recommendations included that the Ministry:

- inform the Legislature and the public in the *Estimates* and the *Public Accounts* of the amounts of Municipal Roads subsidies that are considered operating expenses and those that are considered capital expenditures; and
- change its funding mechanisms to ensure that funds are distributed equitably and that good road system management by the municipalities is encouraged.

## **OVERALL COMMENT ON VALUE FOR MONEY AUDITS**

In many of our value for money audits we found insufficient measuring and reporting of the effectiveness of government programs by the ministries. It is essential that steps be taken to ensure improvement in this area so that legislators and the public can be fully assured that performance is measured, reported and evaluated, and that corrective action is taken when necessary.

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## CHAPTER TWO

# Towards a Workable Legislated Accountability Framework

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### CURRENT STATUS

During the year, in accordance with a June 1993 motion of the Standing Committee on Public Accounts, I pursued the establishment of a workable legislated accountability framework. In the 1993 *Annual Report*, I outlined my action plan:

- working with the central agencies to develop such a framework;
- working with ministries individually to develop practical performance indicators and criteria for performance evaluation; and
- working with ministries' internal audit functions so that their services become oriented towards results and value for money, and ensuring that appropriate controls are built into financial and operating systems, procedures and practices.

Since then, I have had several meetings with representatives of Management Board Secretariat and the Ministry of Finance. These officials prefer to pursue non-legislated ways to strengthen the accountability framework. I will nevertheless continue to advocate strengthening accountability to the Legislature.

In May 1994, I advised the Standing Committee on Public Accounts that there is no short-term prospect of the government ensuring through legislation that more appropriate accountability—including value for money—is obtained for government expenditures, especially expenditures in the form of transfer payments.

In June 1994, I wrote to the Minister of Finance that progress towards a legislated accountability framework is very slow and that there does not appear to be agreement on the part of senior officials of the central agencies on the need for such a framework.

### IMPROVING THE AUDIT REGIME

In both instances, I reiterated and re-emphasized my long-standing concern that in many instances ministries are unable to determine with certainty that sizable grants, totalling billions of dollars, are spent prudently and in full compliance with legislated objectives. I therefore proposed to the Standing Committee on Public Accounts that the *Audit Act* be amended to broaden the definition of discretionary inspection audits of organizations such as school boards, hospitals and universities to permit us to perform full-scope value for

money audits. At present, an inspection audit is defined under the *Audit Act* as "an examination of accounting records" which, in some instances, has had scope-limiting financial connotations. I asked that our right of access be extended to all of the records and information of grant recipients that we deem necessary to perform our duties under the *Audit Act*. This would be consistent with our access to information for audits of ministries and agencies of the Crown.

While this proposed amendment to the *Audit Act* deals with grants and access to information for inspection audits of grant recipients, it would also enhance accountability to the Legislature, thus accelerating the establishment of a legislated accountability framework. The Standing Committee on Public Accounts passed the following motion in May 1994 and accordingly advised the Minister of Finance, who would be the sponsor of the amendment:

*...that the Standing Committee on Public Accounts recommends to the Minister of Finance that public hearings be held to consider amendments to the Audit Act, including increasing the Provincial Auditor's scope of value for money audits to include payments to transfer [payment] recipients, and that this be done without delay.*

In a subsequent letter to the Standing Committee on Public Accounts, the Minister of Finance encouraged the Committee to hold such hearings.

## GOVERNANCE AND ACCOUNTABILITY

In September 1994 I made a presentation to the Standing Committee on Public Accounts on "Governance" subsequent to its hearings on organizations with boards of directors governing non-profit housing corporations. In that presentation I indicated that the Legislative Assembly of Ontario has, directly or indirectly through ministries, established over 7,000 funded governing bodies for many different types of organizations. These range from high-level policy instruments to organizations that provide services to Ontarians at the local level. With the increasing importance being given to community-based services, their number is growing. In the 1993/94 fiscal year, payments to them amounted to about \$30 billion.

These governing bodies are currently under great pressure. Not only must they demonstrate their effectiveness in achieving desired results, they are also often challenged to maintain or increase service levels despite cuts in funding. In addition, the general public has tended to become sceptical about the quality of governance in general and needs to be persuaded and reassured that good governance is indeed being practised.

Good governance, then, is crucial. It is about making the right decisions and getting the right results. It is the means through which our public institutions can successfully achieve their purposes and earn the confidence of those they serve and those who fund them. Good governance both justifies and reinforces public trust.

These governing bodies would fit into an accountability framework in the following manner:

- The Legislature or the ministry sets objectives and assigns the responsibility for meeting them to a board of directors.
- Both parties agree on the specific results to be achieved, as well as how these results will be measured. This step requires a performance contract or memorandum of understanding.

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- The Legislature or ministry gives the board of directors the authority necessary to carry out its responsibilities and to achieve the specific results; in other words, it empowers the board to do its job.
  - The board of directors then decides on the most appropriate strategies for achieving the agreed upon objectives, as well as on the specific results and performance to be achieved by the organization. The chief executive officer (CEO) is informed of these aims and is empowered by the board to achieve them.
  - The CEO reports periodically on results achieved and demonstrates that responsibilities have been carried out appropriately. This process is termed "accounting for results."
  - After receiving assurance through an objective and independent evaluation, the board of directors reacts to and acts upon the results that the CEO has reported.
  - Finally, coming full circle, the Legislature or ministry receives, in keeping with the reporting regime it has established, reports from the board of directors about the organization's performance.

Once all seven of these elements are functioning properly, accountability will have been achieved and the performance of the ministries and organizations receiving public funds can be evaluated and corrective action taken.

## MEASURING AND REPORTING ON PERFORMANCE

My Office found in many of the value for money audits reported on in Chapter Three of this *Annual Report* that performance is neither measured nor reported sufficiently to enable the ministry, and therefore the legislators, to evaluate whether a particular program is effective in achieving its intended objectives or whether corrective action needs to be taken to make that program effective.

As mentioned, the central agencies prefer to pursue non-legislated ways to strengthen the accountability framework. This approach would not necessarily strengthen accountability to the legislators. The existing accountability framework needs significant improvement before it will effectively ensure that public funds are spent in full compliance with legislative objectives and with due regard for economy, efficiency and operational effectiveness. Key areas for improvement are monitoring, evaluating and taking corrective action.

The Management Board of Cabinet has issued sound directives and guidelines, such as Directive 1-11-1 entitled *Transfer Payment Accountability* which applies to all transfer payments as identified in the annual *Estimates*. That Directive, dated May, 1988, includes the following statement of principles:

*...The expenditure of public funds should be managed wisely and prudently to meet the planned objectives and results of effective program delivery.*

*Transfer payment recipients are expected to account for their management of the public funds entrusted to them. This requirement is to be supported by an effective accountability framework that clearly sets out the planned objectives and results and the responsibilities for their achievement and for reporting on performance.*

However, neither Management Board Secretariat nor the Ministry of Finance have put effective mechanisms in place to monitor compliance, ensure corrective action is taken or to encourage the application of guidelines.

In November 1989, Management Board Secretariat requested ministries to have their internal audit branches audit all transfer payment accountability frameworks for compliance with Directive 1-11-1 over three fiscal years. The Secretariat also requested ministries to report annually whether the Directive had been audited. Four and one half years later, in May 1994, the Secretary of Management Board of Cabinet wrote to all deputy ministers requesting that their audit staff work with Secretariat staff to examine the accountability practices relating to key transfer payments. In that regard, deputy ministers were asked to share with the Secretariat the results of the audits of the transfer payment accountability frameworks that had been conducted since 1990. Most ministries provided the Secretariat with their results. This information has not yet been used even as a starting point to improve accountability practices.

In my view, a better approach would be to establish an effective function to monitor the application of the directives. Management Board Secretariat in collaboration with the Ministry of Finance should ensure that ministries are taking whatever corrective action is necessary to ensure compliance with its directives and to encourage the use of the guidelines.

## THE OFFICE OF THE CONTROLLER

Decisions to cut out waste and duplication and find new ways to provide services more efficiently must be based on sound information. Sound financial information depends on the quality of financial management and the effectiveness of the controls exercised, and on the reliability of the information used to monitor performance and form a basis from which to identify opportunities for corrective action.

In the 1993 *Annual Report*, I noted that the controllership function had not received appropriate legislated support for its role and responsibilities; I found that this absence of legislated support persisted in 1994. This function would also be a vital element in establishing and maintaining a workable legislative accountability framework.

I continue to advocate that accountability and the controllership function be anchored in legislation. This is necessary for the effective management of the government's finances and to ensure that all funds are spent for the intended legislated purposes and that value for money is obtained.

There is an urgent need to establish an appropriate and effective controllership function in order to achieve the required level of financial management and control, and financial reporting, which are crucial to an effective accountability framework.

## INTERNAL AUDIT

In the 1993 *Annual Report*, I stated that my Office would work with the internal audit functions in the ministries to develop audit services that are oriented towards both results and value for money and that contribute to ensuring that appropriate controls are built into financial and operational systems, practices and procedures on a timely and practical basis. This will ensure that ministries and, ultimately, taxpayers get the greatest value for the audit dollar.

The internal audit functions will, according to the 1994 budget, be explored for opportunities for new ways of delivering or consolidating services. I note that the number of actual staff employed in internal audit functions has decreased by 23% from 363 staff in 1991/92

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to 279 in 1993/94. In the same period, the expenditures of ministries increased by 5.5% from \$51.7 billion to \$54.5 billion.

These reductions of internal audit are of concern. Internal audit is a very important component of financial and management control in the ministries it serves; as well it can make significant contributions to achieving value for money. My Office relies on internal audit work in our audit examinations. It is essential that any explorations of new ways of delivering internal audit services result in strengthened internal audit functions within the ministries.

## CONCLUSION

The proposed strengthening of the audit regime over transfer payments may well serve to expedite, but should not replace, the establishment of a workable legislated accountability framework.

I believe that a workable legislated accountability framework and a more effective control-  
lership function (preferably one that is anchored in legislation) are necessary for the effective management of government, its finances and spending, and its resources. This would not only provide better assurance to the Legislature that all funds have been spent for the intended legislated purpose and that value for money was obtained, but also strengthen the legislature's ability to make difficult decisions based on sound financial information to cope with the public debt and the deficit.

I reiterate that my Office would like to work with the internal audit functions in the ministries to develop audit services that are oriented towards both results and value for money and that contribute to ensuring that appropriate controls are built into financial and operational systems, practices and procedures on a timely and practical basis.

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## CHAPTER THREE



# Reports on Value for Money Audits

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# Family Support Plan

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3.01

The Family Support Plan is responsible for enforcing support and custody orders. This responsibility includes collecting and disbursing support payments. All Ontario court support orders made since July 1987 are automatically filed with the Plan. In the cases of separation agreements and pre-July 1987 court orders, recipients of support payments may elect to file voluntarily with the Plan.

In March 1992, the *Support and Custody Orders Enforcement Act*, 1985 was amended by the *Family Support Plan Amendment Act*, 1991. The primary purposes of the amended legislation are:

- to collect periodic support payments directly from support payors' income sources through an automatic deduction scheme; and
- to strengthen enforcement powers.

Since March 1992, the amended Act requires an employer or any income source, such as pension funds, to deduct support payments from a payor's regular income and submit payments to the Plan. The maximum amount that an income source can deduct is 50% of the payor's net income.

If there is no income source, or if the amount deducted is not sufficient or the payor is self-employed, then payments are to be made directly by the payor to the Plan. Generally, payors are not to make support payments directly to recipients as long as the court orders are in effect and filed with the Plan.

For the 1993/94 fiscal year, the Plan had about 340 staff and incurred expenditures of approximately \$25 million. About \$300 million, was collected and disbursed during the year, compared to \$166 million in 1991/92, prior to the amendment of the Act. As of March 31, 1994 the Plan had approximately 126,000 cases registered, (96,000 cases as of March 31, 1992); this number is growing by approximately 1,200 cases per month.

Ontario has reciprocal enforcement agreements with every province in Canada, most U.S. states, and many other countries.

## OBJECTIVES AND SCOPE

Our audit objectives were to assess the adequacy of:

- accounting controls over funds received and disbursed by the Family Support Plan; and
- procedures in place to enforce support payments and to measure and report on the performance of the Family Support Plan.

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The scope of our audit included interviews with Ministry and Plan personnel, reviews of case files and reports, and analysis of pertinent information and statistics.

Our audit covered the two-year period ending March 31, 1994 and was conducted at the Plan's head office and three of its eight regional offices. As at March 31, 1994, these three offices accounted for about 70,000 cases, or over half of the Plan's total caseload.

## AUDIT OBSERVATIONS

### ACCOUNTING CONTROLS

Funds are received in each regional office from various sources such as payors, employers and the federal government. Payments to recipients are only made by head office.

Based on our review of internal controls, we concluded that the accounting controls over funds received and disbursed by the Plan were generally satisfactory. However, some minor weaknesses were observed and brought to management's attention.

### ENFORCEMENT

At the time of our audit, there were about 120 enforcement managers and representatives responsible for enforcing support payments. An enforcement representative's caseload averaged about 1,200 cases.

The Plan relies heavily on enforcing cases through deductions from income sources. This is done through the use of support deduction orders issued by the court. Also, the Act allows the Director of the Plan to enforce support payments as if a support deduction order has been issued for domestic contracts, paternity agreements, or pre-March 1992 Ontario orders.

According to the Plan's records, of the approximately 126,000 cases registered with the Plan as of March 31, 1994, 60,000 were either in full compliance or had a significant flow of funds. Another 17,000 cases were considered impractical to enforce or were awaiting further information. The remaining 49,000 cases were identified as requiring enforcement action. As at March 31, 1994, arrears totalled over \$700 million and were growing.

For cases in arrears, the Plan's actions include:

- searching Ministry of Transportation (Ontario) vehicle and driver's licences records and contacting credit bureaus to locate a payor's address and/or to verify ownership of assets;
- permitting a payor to enter into an agreement to pay off the arrears according to a schedule, called the Voluntary Arrears Payment Schedule, which reflects the payor's ability to pay;
- obtaining a federal garnishment which can seize up to 100% of a payor's income tax refund and up to 50% of unemployment insurance benefits;
- obtaining a garnishment to seize arrears from payors' bank accounts and/or their workers' compensation benefits;

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- obtaining and enforcing a writ of seizure and sale to secure any proceeds in the event of a disposal of assets by the payor; and
  - initiating a default hearing against the payor.

## DEFAULT CASES

Our audit focused on the appropriateness of actions taken by the Plan on cases identified as requiring enforcement.

For the three offices visited, we conducted interviews with enforcement staff, examined the minutes of their meetings and reviewed the Plan's enforcement manuals and guidelines.

We looked for written documentation to support whether enforcement procedures and guidelines were complied with and whether cases were appropriately managed such as:

- an assessment to determine which cases should be given priority, including decisions on which cases were most likely collectible;
- whether appropriate steps had been taken and exhausted to locate payors in arrears;
- what alternative enforcement actions were considered to be most effective in each case, such as garnishment, writ of seizure and sale, or a default hearing;
- reasons for the lack of further action on long outstanding cases; and
- periodic review of inactive cases.

We found a lack of documentation to support the above.

Additionally, through using computer-assisted audit techniques, we noted that of the 70,000 cases in the three regions visited, payments had not been received on 26,000 cases in the 18 months ending December, 1993. We reviewed 50 of these cases and noted that action had not been taken on 13 (25%) of them for an average of three years. Plan officials informed us that many of the cases should have been closed.

We also noted that of the 49,000 cases identified by the Plan as requiring enforcement action, the Plan's records indicated that over 15,000 cases had had no action taken, such as having a federal garnishment or writ of seizure and sale as required by the Plan's enforcement procedures. The Plan's management could not provide specific evidence as to why such actions were not taken.

## RECOMMENDATIONS:

### (I) For the three regions reviewed:

- (a) The Plan should maintain proper documentation, including an improved tracking system for its enforcement actions to determine the appropriateness of the actions taken. The improved documentation would then provide the basis for strengthening the Plan's enforcement efforts.
- (b) The Plan should take appropriate action, including case closures, on default cases for which no action had been taken for a long time.

The Plan's management should initiate a review to determine to what extent the other regions require similar action.

- (II) The Plan should improve its efforts in obtaining a garnishment or a writ of seizure and sale for cases that are in default.

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## **MINISTRY RESPONSE:**

*The Ministry supports the recommendation for an improved tracking system for enforcement actions taken by the Family Support Plan with a view to further evaluating and refining existing guidelines for standard enforcement processes in all offices. The Ministry is also interested in other innovative approaches to enforcement given caseload growth and resource constraints.*

*The Ministry also supports the recommendation to address cases in default for a long time by administratively closing such cases if they are impractical to enforce. The Ministry agrees that it will implement this recommendation in all offices.*

*The Ministry supports the recommendation that federal garnishments and writs of seizure and sale should be put in place on defaulted cases if possible. The Plan will explore new ways to obtain the information necessary on defaulted payors to put more of these actions in place.*

## **COMPUTER SYSTEM**

The computer system supporting the Family Support Plan was designed to process support payments and to keep track of the cases registered, arrears owed and enforcement action taken. Operational support for the computer system is provided by both the Plan and the Computer and Telecommunication Services Branch of the Ministry of the Attorney General.

## **INFORMATION ISSUES**

The Plan's staff expressed concerns that the current computer system was inadequate for carrying out and monitoring their enforcement efforts. Our audit confirmed these concerns. For example:

- users had to undergo a cumbersome process of navigating among a number of screens in order to obtain information on case activities;
- programming enhancements took considerable time because of missing or poor programming documentation;
- once cases had been registered, the computer system did not provide a summary listing on cases which had information missing, such as payors who could not be located. Without this information, Plan staff were not readily informed as to what further actions needed to be taken; and
- the Plan's management was not provided with a listing of all cases with Voluntary Arrears Payment Schedules and the amount of arrears associated with these cases. Without this information, the Plan's management could not adequately monitor the effectiveness of enforcement actions. Plan management informed us that they are currently addressing this issue.

Over the past several years, the computer system had undergone a number of upgrades and enhancements. However, the Plan's staff indicated that their information requirements were still not being met.

At the time of our audit, the latest action taken by the Plan to address its problems with the computer system was the completion of a report documenting the Plan's business proc-

esses. This report was to be used in preparation for soliciting information about what improved technology may be available in the market.

We noted that the actions taken or plans in place had not adequately followed generally accepted management practices that are crucial to successful development of a new or improved computer system. These practices include:

- the Ministry's senior management assigning clear roles and responsibilities for the computer development project. This should include the establishment of a planning or steering committee. The committee should consist of a chair in charge of the user group; manager(s) of the user function which will operate the system; senior manager(s) responsible for other groups, for example the Internal Audit Branch of the Ministry, which may be affected by the system; and the project manager.
- clearly defining user requirements and priorities. A preliminary survey, which includes an analysis of the deficiencies in the existing system and any opportunities for improving the operations, should be carried out.
- conducting a feasibility study beginning with the findings of the preliminary survey. The study should provide for analyses of both the technical feasibility and the estimated costs and benefits of alternative course of actions.
- before proceeding with a course of action, senior management should approve a detailed implementation plan which should be used to measure progress towards the acquisition or upgrading of the computer system.
- proper monitoring of any conversion to a new system or improved computer system would be required. This would include monitoring the development costs of the system, testing the system and program prior to their use, and the training of users.

The Plan's management informed us that they did prepare plans which over time would address our concerns. We will be following up on the implementation of the plans to ensure that the concerns noted have been adequately addressed.

#### **RECOMMENDATION:**

**The Ministry should apply generally accepted management practices to all computer systems development projects.**

#### **MINISTRY RESPONSE:**

***The Ministry and the Family Support Plan have information technology plans in place by which to manage the implementation of computer systems development projects. The Ministry will ensure adherence with these plans and that generally accepted management practices are followed.***

#### **OPERATIONS ISSUES**

Ministry staff informed us that since the Plan's inception in 1987, no records had been removed from the system's databases. As a result, daily updates of the databases required in excess of eight hours to complete and the weekly and monthly updates required even

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longer. Consequently, the system was often not operational at the start of the next business day.

In addition, the system was not well designed. For example, erroneous transactions caused the system to fail, which prevented other valid transactions from being processed. The system could not be restarted until the erroneous transactions had been deleted.

We found, and Plan officials confirmed, that during the six months ending April 30, 1994, there had been about 20 occasions when the system was either fully or partially unavailable during business hours. This resulted in payments to recipients being delayed, inquiries not being responded to, and enforcement actions not being taken.

A stopgap action plan was prepared by the Ministry in January, 1994 which called for removal of some records from the databases and placing erroneous transactions into a holding file to allow continued processing of valid transactions. At the completion of our audit in March, 1994 these improvements had not been substantially implemented.

## **RECOMMENDATION:**

**The Ministry, in conjunction with the Plan, should take all steps necessary to improve its computer system and ensure that the deficiencies identified are corrected.**

## **MINISTRY RESPONSE:**

*The Ministry agrees that correction of existing deficiencies with the computer system on which the operations of the Family Support Plan depend is a priority. To this end, the actions already initiated by the Ministry to ensure system availability during business hours and other related, planned initiatives will be monitored closely.*

*The Ministry also believes that the current computer system must be replaced. Such an initiative is a significant corporate commitment which will have links to other Ministry systems projects. Steps are under way within the Plan to identify requirements and these will be considered within the context of the Ministry's overall information management strategy.*

## **ASSIGNED CASES**

Where a payor fails to make support payments and a recipient has to go on social assistance, the Province is entitled to any funds eventually collected from the payor up to the amount of the social assistance provided. The Ministry of Community and Social Services (COMSOC) is required to send a notice informing the Plan that the case has been assigned and that any support payments received by the Plan are to be sent to the Province instead of the recipient. According to the Plan's records, as at March 31, 1994, there were approximately 34,000 assigned cases and about \$275 million owing to the Province. For the 1993/94 fiscal year, the Plan collected about \$43 million (\$22 million in the 1991/92 fiscal year) for the Province.

At the regions we visited, enforcement staff complained of significant delays in receiving assignment notices from COMSOC. As a result, any support payments received by the Plan prior to receiving the notices were sent to the recipients rather than the Province.

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When this occurred, the Plan advised COMSOC to recover the amount paid to the recipients.

The Plan did not have information on the frequency or length of the delays in receiving assignment notices from COMSOC and the amounts overpaid to recipients. Due to the growing number of assigned cases, we are concerned that overpayment to recipients could become increasingly significant. Additionally, the delays in receiving the assignment notices could hinder the recovery of social assistance overpayments by COMSOC.

#### **RECOMMENDATION:**

**The Ministry, in conjunction with the Ministry of Community and Social Services, should establish an effective process to ensure that assignment notices are submitted on a timely basis.**

#### **RESPONSE OF THE MINISTRY OF THE ATTORNEY GENERAL:**

*The Ministry agrees with this recommendation and wishes to note the lead responsibility of the Ministry of Community and Social Services in this area. Staff in the two ministries will continue to work in close co-operation on this issue.*

#### **RESPONSE OF THE MINISTRY OF COMMUNITY AND SOCIAL SERVICES:**

*The Ministry agrees that these delays should be prevented and has already established processes which will ensure assignment notices are completed in a more timely manner through the Casefile Investigation Initiative. These new processes took effect July 1, 1994 in the Family Benefits Assistance program and will commence October 1, 1994 in the General Welfare Assistance program.*

*The processes introduced by Casefile Investigation will result in a virtual elimination of these overpayments in the long term.*

*In order to expedite the assignment process and deal with any existing backlog of assignments, the Ministry has increased resources in the necessary areas.*

*The Ministry will continue to work toward improving these processes with assistance from the Ministry of the Attorney General.*

### **COMPLEXITIES OF SUPPORT ORDERS**

Plan officials indicated that there are many provisions of support orders, such as interest on arrears, cost of living adjustments and ongoing support payable that are very difficult to enforce or administer.

Recipients are entitled to interest on arrears as provided by court orders or legislation. We noted that the Plan did not record or calculate the interest on arrears for those cases. It would only include interest if the recipients themselves requested and provided the calculation in a statement of arrears. Plan officials indicated that only a few recipients had submitted this information.

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Since arrears totalled about \$700 million as at March 31, 1994, interest not collected on behalf of recipients could be substantial. Furthermore, there would be a significant loss of revenue to the Province, as about \$275 million of the arrears were due to the Province.

Plan officials indicated that because of a wide variation in individual support orders and the complexity of the legislation governing interest calculations, it was not practical to comply with the requirement to calculate and collect interest on arrears. Also cited were wide variations in interest rates and the conditions under which interest would be paid.

With respect to cost of living adjustments, the method of calculation for adjustments often depends on information on the current financial circumstances of the support recipient or payor. This type of information is usually not readily available to the Plan.

Similarly with ongoing support payable, the amount could vary according to whether or not the payor is employed.

#### **RECOMMENDATION:**

**The Ministry should work with, and request the co-operation of, the courts and the legal community to develop approaches to making family and child support provisions more practical to calculate and more readily enforceable. The Ministry should investigate alternative methods of ensuring that both recipients and the Province receive interest on arrears to which they are entitled under support orders.**

#### **MINISTRY RESPONSE:**

*Given the very large caseload of the Family Support Plan, the Ministry strongly supports the thrust of the recommendation that provisions of support orders should not be complex to enforce. The Ministry agrees to investigate whether there may be new approaches to making some types of variable and complex terms of support orders, for example, cost of living allowance adjustments and interest calculations, practical for the Plan to calculate and enforce. There may also be significant workload savings for the Plan and level of service improvements for its clients with respect to cases with support terms that are enforced, at present, but which are time-consuming to administer.*

*The Director of the Family Support Plan has discretion in the statute to determine whether terms of support orders registered with the Plan orders are practical to enforce. Where practical, cost of living adjustments and interest are currently enforced by the Plan; the latter only if the necessary information is provided by the recipient.*

*The Ministry has concerns that the numbers of cases in which interest is recoverable may not be significant and that it may not be cost effective to address this component of the recommendation. Any changes to the calculation of interest, absent significant computer software development to allow for accurate calculations, would require amendment of the Courts of Justice Act.*

## MEASURING PERFORMANCE

The Plan produced a monthly report which included statistical information such as caseloads, compliance rate, funds collected, total arrears owing and amount owed and collected for the Province on assigned cases. However, we noted the need for improvements to the indicators used for measuring the performance of the Plan.

Our research and discussions with the Plan's staff identified the following examples of indicators that could be used to assess the Plan's performance:

- benefits to the Province through the Plan's operations beyond the amount collected on assigned cases;
- average amount collected on arrears per case and per enforcement representative;
- a breakdown of arrears by amounts and time outstanding;
- average number of months to collect arrears;
- ratio of arrears collected to total arrears owed; and
- funds received through actions taken with various enforcement tools such as writs of seizure and sale or garnishments.

These indicators should be compared over a period of time so as to provide an indication of whether or not the Plan's performance has been improving during that time.

### RECOMMENDATION:

The Plan should develop improved indicators to measure and report on its performance.

### MINISTRY RESPONSE:

*The Ministry agrees that additional performance measures and indicators are desirable as the Family Support Plan matures and stabilizes. New measures should encompass all aspects of the operations of the Plan and not be limited to the enforcement area.*

# Child Welfare Services

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The Child Welfare Services program is the largest program funded under the *Child and Family Services Act* and Regulations. Under the Act, the Ministry of Community and Social Services provides funding to 54 children's aid societies for the care and protection of children. The Societies are non-profit agencies approved by the Ministry under the *Child and Family Services Act*. Each Society is managed by a board of directors consisting of municipal representatives and persons elected from the general membership of the Society. Typically, most counties and larger municipalities in Ontario have a children's aid society to serve the needs of the local community. According to the Ministry's Estimates Briefing book the functions of the Societies include:

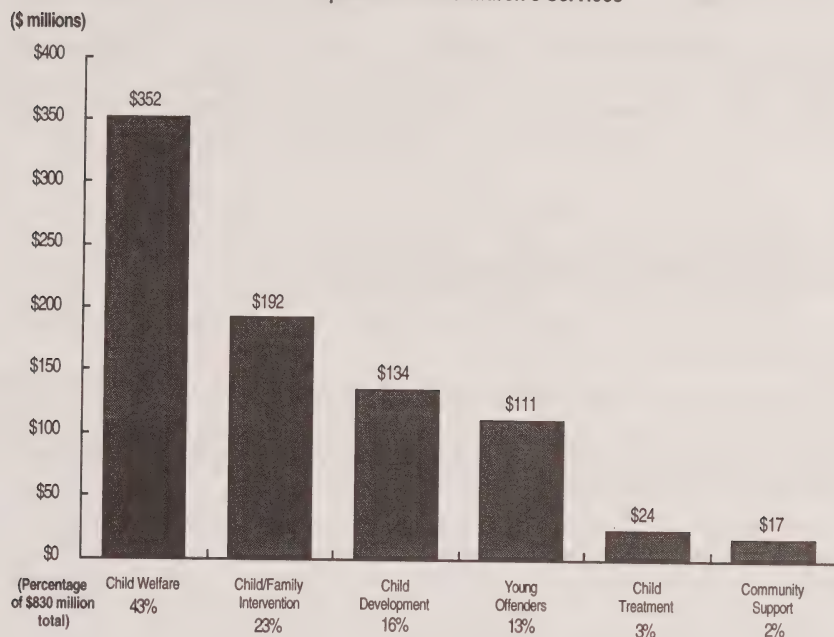
- temporary or permanent guardianship for children separated from their parents;
- counselling services for children or families;
- protection of children from physical/emotional abuse or neglect; and
- alternative care for children such as foster care, group homes, institutions or adoption.

The Ministry is responsible for:

- advocating that legislation is revised in accordance with changing needs;
- articulating minimum expectations in the form of standards, guidelines, policies, and procedures;
- assisting agencies to develop policies and procedures which meet Ministry expectations; and
- advising, inspecting and supervising agencies and their services and programs.

For the 1993/94 fiscal year, the Ministry's payments for children's services funded under the *Child and Family Services Act* and Regulations, consisting of the federal and provincial government shares, totalled approximately \$830 million of which \$352 million was for Child Welfare Services:

### Expenditure for Children's Services



Source: Ministry of Community and Social Services

The terms of a federal/provincial cost-sharing agreement under the *Canada Assistance Plan Act* call for the federally approved costs for Child Welfare Services to be shared 50% by the federal government, 30% by the provincial government and 20% by the area municipal governments. A municipality pays its share of funds directly to the Societies. The Ministry pays both the federal and its share of funds to the Societies and then recovers the federal government's portion. However, the *Federal Government Expenditures Restraint Act* passed in February 1991 put a ceiling on the Canada Assistance Plan transfers to various provinces including Ontario. Consequently, since 1990/91, the Ministry has been receiving a smaller contribution from the federal government. For the 1993/94 fiscal year, the federal government's contribution towards the Child Welfare Services expenditures of \$352 million was approximately \$102 million, which represents about 32% of federally approved costs.

Overall, the total Child Welfare Services expenditures for the 1993/94 fiscal year were shared 32% by the federal government, 48% by the provincial government and 20% by the municipal governments.

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The program's actual volume indicators for the last four calendar years were as follows:

Description	1993	1992	1991	1990
No. of protection and prevention cases	29,700	29,633	28,770	28,000
No. of foster homes	5,540	5,550	5,350	5,300
No. of children in care of societies	10,500	10,200	10,440	10,385

## OBJECTIVES AND SCOPE

Our audit objectives were to assess the Ministry's procedures for monitoring children's aid societies to determine the extent to which:

- legislative requirements and Ministry policies and procedures were complied with; and
- achievement of program objectives and operational effectiveness in delivering services were measured and reported.

Our audit included interviews with Ministry officials, visits to three area offices and sending survey questionnaires to 20 children's aid societies.

## AUDIT OBSERVATIONS

### COMPLIANCE WITH LEGISLATION AND MINISTRY POLICIES AND PROCEDURES

#### POLICY FRAMEWORK

In May 1993, the Ministry released a *Children's Services Policy Framework* which sets out the directions the Ministry will take in decisions about children's services funded under the *Child and Family Services Act*. Its aim is to set a course for achieving a more effective and efficient system of support and services for children and families. To achieve this, the Ministry set out six broad policy directions:

- a cohesive, integrated service system;
- accessibility of services;
- local community participation in the planning process;
- resources targeted to specified priority groups;
- equitable distribution of resources; and
- accountability.

The Framework's underlying goal is "to ensure that children and families benefit to the greatest extent possible from available resources. This means that the benefits expected

from services must be identified and the services organized and delivered so that these benefits are achieved." Also, the Framework's covering letter from the Minister of Community and Social Services states that "the current economic climate of Ontario only makes the need for this reform more pressing."

At the completion of our audit in March 1994, the Ministry had not developed an implementation plan with specified target dates for the achievement of the six policy directions identified in the Framework. The Ministry's progress during the 1993/94 fiscal year included completing an education process at the area office level to strengthen the links between the Ministry and the local planning bodies.

A number of our audit observations that follow are similar to the observations we noted in our 1989 *Annual Report*. Although the Ministry took some corrective action in response to our 1989 observations, a number of concerns remain. Action on these concerns and on our current observations hinges on the timely implementation of the *Policy Framework*.

### RECOMMENDATION:

**The Ministry should develop a specific plan of action, with target dates, for the implementation of the policy directions stated in the *Policy Framework*.**

### MINISTRY RESPONSE:

- *The Ministry will continue to work with stakeholders in the children's services system to clarify the concepts in the Children's Policy Framework and develop practical methods for putting them into practice. Many communities have already used the directions in the Framework to guide their service planning.*
- *The Ministry has recently approved a specific plan of action, with target dates. Implementation "milestones" have been set. Each community and area office will be required by October 1994 to develop specific, concrete implementation plans to reach these milestones.*

### MANDATE

As part of section 15(3) of the *Child and Family Services Act*, children's aid societies are required to "provide guidance, counselling and other services to families for protecting children or for the prevention of circumstances requiring the protection of children."

While the responsibilities for the delivery of Child Welfare Services by children's aid societies are stated in the legislation, the Ministry has not ensured that the Societies are complying with the above-noted legislative requirement. Six of 17 Societies that responded to our survey indicated that they were not providing all the services stipulated under Section 15(3) of the Act. For example:

- one of the larger children's aid societies indicated that "funding is not available for prevention and family support services" as defined in the Act.
- another children's aid society noted that "due to shrinking staff and program resources, as well as growing community demand for core services, our staff have very limited capacity to provide guidance/counselling/other services required as part of

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our protection mandate. We receive no funding or other support to offer preventive services”;

In addition, our review of documentation at the three area offices we visited also showed the following:

- one large children’s aid society had noted that “prevention and family preservation are the keys to addressing the escalating costs of child welfare in this province. The current funding system, however, mitigates against this approach, acting more as an incentive for a children’s aid society to admit children and youth to its care rather than maintain them at home in their own community.” The Society had also noted that the average cost to serve a child in care was approximately \$18,000 per year as compared to approximately \$1,000 per year in his/her own home;
- another children’s aid society noted that its “resources continue to be disproportionately consumed by high-risk cases, thereby reducing its ability to provide protection services on a preventive or supportable level. As such, child and family problems which could be ameliorated early, go under-serviced until they escalate to a high-risk level requiring resource intensive mandatory intervention.”

Additionally, the Ontario Association of Children’s Aid Societies (OACAS) informed us that for the 1992 calendar year the Societies reduced their prevention programming expenditures by \$13.4 million. Such a reduction in services would appear to be contrary to the thrust of the *Policy Framework* to “shift resources from intrusive reactive services, to prevention and early intervention.”

## RECOMMENDATION:

The Ministry should ensure that all the responsibilities of children’s aid societies outlined in Section 15(3) of the *Child and Family Services Act* are consistently carried out, especially since the Ministry’s thrust is towards prevention and early intervention.

## MINISTRY RESPONSE:

- *The Ministry supports moving the total children’s services system toward a preventive services approach. The role that a children’s aid society (CAS) plays with regard to prevention is implemented within the context of the other services available in the community, including those provided by Education, Health, Recreation, and other service systems. The Ministry is working with the Ontario Association of Children’s Aid Societies to more closely define the appropriate CAS role in prevention services, and some societies have already implemented programs which emphasize prevention while still providing adequate protection services.*
- *The Ministry has taken steps to clarify and strengthen the funding guidelines related to the provision of services to children in their own homes.*
- *The Ministry believes that the overall financial cost of service to a child in his own home is less than that of providing substitute care. In addition, the Ministry believes that supporting the service at home, where that is possible, is less disruptive to the family bonds, and more effective in creating sustainable positive change in the whole family.*

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## RESIDENTIAL PLACEMENT NEEDS

The *Child and Family Services Act* recognizes the need for children's aid societies to provide children with appropriate care and development, such as a good parent would provide to his or her own child. Accordingly, the Ministry has established guidelines for the Societies to use in selecting the most appropriate type of care for children based upon an analysis of the child's treatment, education, recreation, medical and religious needs along with age, the sex suitability of the peer group in the placement, and expected length of stay.

In our 1989 *Annual Report* we expressed concerns that many Societies had placed children in residences which were not considered most appropriate due to a shortage of suitable residences. We also noted that children were not receiving needed mental health treatment and that they had been placed in temporary facilities for extended periods or placed outside their home communities, or had been frequently transferred between residences.

From our current review of documentation at three area offices, we found that many of the concerns we noted in 1989 still persist. For example:

- the OACAS indicated that 18% of all children in care in 1992 were placed in resources outside of the community while one area office indicated that these placements were as high as 30% for the three children's aid societies within its jurisdiction. Furthermore, the OACAS indicated that family reunification was more difficult to achieve when the child, family and agency were separated by great distances;
- the OACAS also informed us that access to mental health beds for children in care was a concern of children's aid societies across the province. One Society noted that it had at least 15 children in its care that should have been receiving mental health treatment, but were placed in outside paid institutions in other communities; and
- at one large children's aid society, the Ministry's Crown Ward Review Unit had identified 14 cases where, in its opinion, there was a need to consider more appropriate placements. At another large Society, the Unit had further noted that, in some cases, overloading of foster homes with seriously disturbed, and often sexually abused children, had become a destructive situation for all.

All 17 children's aid societies responding to our survey indicated that adequate and appropriate residential facilities were not available in their area to meet the assessed needs of some of their children.

Overall, the Ministry does not collect, consolidate, or monitor information on a provincial level about the differing characteristics and needs of children in care or about its placement capacity to enable it to match the children with the most appropriate setting to meet their needs.

### RECOMMENDATION:

**The Ministry should collect sufficient information to help it identify, in consultation with children's aid societies, provincial placement needs to facilitate the placement of children in the most appropriate setting according to their needs.**

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## **MINISTRY RESPONSE:**

*The Ministry agrees that the consistent collection and systematic analysis of information would be helpful in planning; however, the Ministry believes information is best collected on a local basis, so that it can be used to inform the community plans being developed in each area. Information can then be rolled up at the area level and the provincial level. The aggregate data would be used to monitor the distribution of resources in the province.*

## **FOSTER CARE**

Foster homes provide a family-like setting for a child that is both less intrusive and less expensive than other forms of residential care such as private group homes and institutions. Therefore, the Ministry considers foster care to be the best alternative, particularly for younger children. Approximately one half of the 10,500 children in the care of children's aid societies are in foster homes.

We raised concerns in our 1989 *Annual Report* regarding recruitment of foster homes, support provided and inequity in compensation to foster parents. In April 1992, the Ministry issued a consultation paper entitled *A Proposed Framework for Residential Family Resources*. This was a comprehensive framework for residential services with a focus on family support. The paper noted that the changing expectations of providers of family-based support/care services had made it increasingly difficult to retain and recruit such providers. The paper also noted that the need for training, support, relief and compensation to reflect the diverse roles performed by foster care providers had intensified.

The Ministry informed us that it was currently consulting with the OACAS and that as part of its initiatives under the *Policy Framework*, consideration was being given to changing rates to reflect varying levels of residential services including foster care.

The Ministry has been aware of the issues relating to foster care since 1988, but has yet to provide any firm policy direction in this area.

## **RECOMMENDATION:**

**The Ministry should develop and implement a policy specifically relating to the recruitment, training, support and retention of, and compensation for, foster care providers.**

## **MINISTRY RESPONSE:**

- *The role of the Ministry is to provide broad policy parameters within which the Societies and the Ontario Association of Children's Aid Societies (OACAS) develop more specific agency policies and procedures. The Ministry is currently involved with the OACAS in the development of their "Foster Care Vision" project, which builds on the Residential Family Resources policy framework developed by the Ministry, and addresses all the above foster care issues.*
- *The Foster Care Funding Initiative, begun in 1989, has put \$8 million per year into the children's aid societies specifically for the purpose of strengthening foster*

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*care. This money has been used to establish a minimum rate, foster care training and support services, and demonstration projects. In addition, some funding went to the OACAS for the development of a provincial foster care recruitment program.*

## OUTSIDE PAID INSTITUTIONS

Many children with special needs are placed by children's aid societies in outside paid institutions (OPIs) which provide services such as programs to deal with behavioural or developmental problems. The Societies are responsible for ensuring that the OPIs provide the agreed upon services to the children.

We noted that 6 of 17 Societies that responded to our survey did not evaluate their OPIs to ensure that services contracted were being provided.

Of the Societies that evaluated OPIs, two informed us that action was taken to correct the deficiencies noted from their review. In particular, one Society concluded that the services purchased were inappropriate and not those agreed to between the OPIs and the Society. Consequently, in 1992, the Society decided to remove 26 of its 49 children it had living at the OPIs. For instance, at one OPI, treatment plans were not followed, counselling/therapy services were not provided as agreed and appropriate discharge plans had not been developed.

### RECOMMENDATION:

**The Ministry should, in consultation with the children's aid societies, consider implementing procedures for periodic evaluations of Outside Paid Institutions to verify that children are being properly cared for.**

### MINISTRY RESPONSE:

- *As set out in the Child and Family Services Act , the responsibility for monitoring the quality of care received by a child under its supervision clearly lies with the children's aid societies.*
- *The Ministry will meet with the Ontario Association of Children's Aid Societies (OACAS) to discuss the procedures in place to ensure that this responsibility is being carried out.*
- *The Ministry will also discuss with the OACAS how to build on the self-assessments already done by many facilities.*

## NON-CROWN WARD REVIEWS

There are approximately 5,800 non-Crown Wards in the temporary care of children's aid societies. The legislative requirements for Crown Wards (children placed under permanent Society care by a court order), such as periodic visits by social workers, review of children's plan of care, and medical and dental examinations, also apply to these children. However, the Act does not specifically require the Ministry to monitor compliance with

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these requirements by children's aid societies. Therefore, the Ministry has limited its review of children's files to Crown Wards only.

In our 1989 *Annual Report* we expressed concern that Crown Wards were the only group of children being formally reviewed by the Ministry. We recommended that the Ministry also periodically review non-Crown Ward files. The Ministry indicated that the OACAS was developing standards in 1989/90 as part of an accreditation process for Societies and that as mechanisms were put in place, the Societies would report on the results of their audits and the measures they were taking to address non-compliance. However, as of the completion of our audit in March 1994, the accreditation process had not been implemented.

#### **RECOMMENDATION:**

**The Ministry should take the necessary steps to accelerate the implementation of the accreditation process by the Ontario Association of Children's Aid Societies.**

#### **MINISTRY RESPONSE:**

- *The accreditation process developed by the Ontario Association of Children's Aid Societies is an internal quality assurance mechanism. Implementation is beginning this fall. It is expected that all 50 member societies will go through the first full accreditation review process over the next six years, and then will continue to be reviewed on a four-year cycle.*
- *There are several mechanisms in the Child and Family Services Act which provide safeguards for children, including non-Crown wards, in the child welfare system. Among these are society and residential facility complaint procedures, the Advocacy Office, Residential Placement Advisory Committee reviews, and the file reviews and interviews involved in licensing.*

### **LICENSING OF RESIDENTIAL FACILITIES**

The licensing provisions of the Regulations under the *Child and Family Services Act* set out minimum acceptable standards for the provision of residential care to children. As such, the Ministry annually licenses group homes and institutions and ensures that the residences are in good condition and meet fire safety and health standards.

In April 1993 a revised Children's Residential Licensing Manual improved and clarified the procedures for Ministry staff carrying out the licensing inspections.

Generally, we found that the Ministry's procedures for residential licensing were adequate to ensure compliance with the Regulations under the *Child and Family Services Act*.

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# MEASURING AND REPORTING ON PROGRAM AND OPERATIONAL EFFECTIVENESS

## AGENCY ACCOUNTABILITY

The need for transfer payment recipients to be held accountable for the manner in which public funds are spent is outlined in a 1988 Management Board of Cabinet Directive. An underlying principle of the Directive is that the expenditure of public funds should be managed prudently to meet planned objectives and results, for effective program delivery. The Directive specifically requires each Ministry to establish an accountability framework that includes setting expectations, contracting for service, monitoring performance, and taking corrective action.

The Ministry indicated that accountability is currently designed to be achieved through service planning, legal agreements, the licensing process, and the Ministry's working relationship with the Societies.

We noted that in the area of monitoring performance, the Ministry did not have procedures to measure and report the effectiveness of the programs provided by children's aid societies. We also noted weaknesses in the contracting for services, which is part of the service planning aspect of the accountability framework.

## EFFECTIVENESS MEASUREMENT

Many children's aid societies, on their own accord, attempt to measure the effectiveness of specific programs, using child assessment criteria, staff feedback, community surveys or consultant reviews. We noted that a few Societies were considering developing child well-being scales and specific outcome indicators for the clients being served.

The Ministry's *Policy Framework* has also identified a need for the measurement of effectiveness in improving accountability. In its initial efforts, the Ministry intends to focus on clearly identifying appropriate client benefit/outcome indicators in providing services to children and/or families. However, as of the date of completion of our audit in March 1994, the Ministry had not developed any outcome indicators.

We will follow up on the Ministry's efforts in developing and implementing effectiveness measures in conjunction with our follow-up of the Ministry's progress in implementing its policy directions stated in the *Policy Framework*.

## SERVICE PLANNING

In 1979, a Ministry report entitled *Funding of Children's Services in the 1980s* indicated that the goals of service funding were to improve the Ministry's capacity to allocate resources according to priorities and identified needs, and ensure a more equitable distribution of resources consistent with these needs. This was to be achieved through a child population/social indicator allocation formula. However, this initiative was discontinued due to a lack of consensus regarding the application of the formula. Consequently, children's aid societies are continuing to be funded on the basis of historical budgets plus an annual percentage increase or decrease, rather than on an assessment of needs and priorities.

Children's aid societies submit service plans annually to the Ministry for funding in the upcoming year. These plans link a Society's activities and programs to its financial re-

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quirements. Ministry program supervisors act as liaisons between the Societies and the Ministry, and are responsible for monitoring a Society's performance. Subsequent to a Society's year end of December 31, Regulations require the Society to submit audited financial statements and Annual Program Expenditure Reconciliations (APERs). The Ministry uses these documents to ensure that funds have been appropriately expended and properly recorded.

At the three area offices we visited, we reviewed service plans and financial information submitted by the ten children's aid societies coming within their jurisdiction. We noted that:

- service plans were not used as a basis for funding the Societies and Ministry approval for funding was not given until half way through the financial year of the Societies;
- all of the plans were incomplete, missing descriptions of goals and achievements and financial and statistical information on services;
- the funding approval letter did not clearly specify the services that the Ministry was funding;
- 65% of the service plans reviewed for 1992 and 1993 were submitted between one and eleven months after the due date of February 28;
- eight of the ten financial statements for 1992 were submitted between one and eight months after the due date of April 30; and
- all ten APERs for 1992 were submitted between one and ten months late. In one case, a Society's 1991 and 1992 APERs had not been reconciled to Ministry records as of March 1994. Also, three of the ten APER reports had not been audited as required by Regulations.

Completion and timely receipt and review of the above information is essential for proper planning and for the Ministry to evaluate a Society's performance and take corrective action where necessary.

In March 1990, a Ministry report entitled *Strategic Directions in Child and Family Services* noted that problems such as late approval of service plans, and the difficulty of all parties to meet time frames within the service planning cycle, had resulted in a loss of credibility for this planning approach. The Ministry has made little progress in remedying these deficiencies.

We also noted that, according to one children's aid society, "the current situation reflects an after-the-fact approach to service planning which is not an effective budgeting strategy and does not allow for any forward planning on the part of agencies."

## **RECOMMENDATIONS:**

**To facilitate the funding decisions called for by the *Policy Framework*, the Ministry should review the usefulness of the present service planning system as a timely funding, monitoring and evaluation process.**

**The Ministry should also ensure that financial information is received and reconciled on a timely basis.**

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### **MINISTRY RESPONSE:**

- *The Service Plan is the means by which the ministry contracts with agencies. The intent is to establish service expectations in relation to budget approvals and eventually to specify outcomes expected. This intent is compatible with the Children's Policy framework.*
- *The Ministry has been working on improving service planning by developing better definitions and reporting formats, conducting province-wide training, and instituting a new Chart of Accounts and In-Year Reports. All of these changes have been developed in collaboration with the agencies involved, including the Ontario Association of Children's Aid Societies.*
- *The Ministry remains committed to the service planning process. The Ministry will take the necessary steps to improve the process and ensure that financial information is received and reconciled on a timely basis.*

3.02

### **MUNICIPAL SHARING OF CHILD WELFARE SERVICE COSTS**

We noted that the Ministry, in calculating the costs to be shared, does not include all costs related to Child Welfare Services, resulting in the municipalities not contributing their full share of such costs. Children sometimes receive Child Welfare Services through the Ministry's Child and Family Intervention (CFI) program, costs for which are shared by the Ministry and the federal government. We noted that:

- many residential facilities funded through the CFI program are used as free beds by children's aid societies. However, the costs for these residential services are not tracked and recorded by the Ministry as Child Welfare Service costs; and
- at one area office, approximately \$1.1 million of non-residential programs provided by a Society for Child Welfare Services for children under its care were funded through the CFI program. Conversely, similar programs provided by another Society, within the jurisdiction of the same area office, were funded through the Child Welfare Services program budget.

### **RECOMMENDATION:**

The Ministry should review its accounting process to ensure that all Child Welfare Service costs are properly recorded, thereby making it possible for municipalities to contribute their full and appropriate share of such costs.

### **MINISTRY RESPONSE:**

- *The Ministry agrees that there are some inconsistencies in the way costs are recorded, and has made some changes to the Service Planning in-year reports which clarify the definitions for recording service costs. These definitions will be used in the next fiscal year.*
- *The fact that a child's access to the system is through Child Welfare does not mean that the service the child requires is solely Child Welfare. Many children need basic Child Welfare services plus Child and Family intervention or Child Treatment or Developmental services.*

# Municipal Allowances and Benefits

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The Municipal Allowances and Benefits program (more commonly known as General Welfare Assistance or GWA) of the Ministry of Community and Social Services is governed by the *General Welfare Assistance Act* and Regulations. The purpose of the program is to provide short-term financial assistance for a basic standard of living to individuals who are unable to provide for themselves.

Applicants for GWA must meet specific eligibility requirements established in the legislation. Assistance amounts vary depending on individual circumstances. The rates are established through Regulations to the Act. The program has four components: general assistance; supplementary aid; special assistance; and mandatory special necessities.

The greatest amount of assistance by far is given as general assistance, which provides for basic living expenses for unemployed persons, single persons raising children, foster parents, and sick and disabled persons. Currently, the basic assistance, including assistance for shelter, ranges from a maximum of about \$660 per month for a single person to a maximum of about \$1,500 per month for an employable couple with two children. Supplementary aid and special assistance are paid at the discretion of municipalities for special needs such as prosthetic devices, eyeglasses, hearing aids, dental services and vocational training. Mandatory special necessities assistance, which must be provided as needed to all eligible persons, includes such things as diabetic supplies, surgical supplies and dressings, and transportation for medical care.

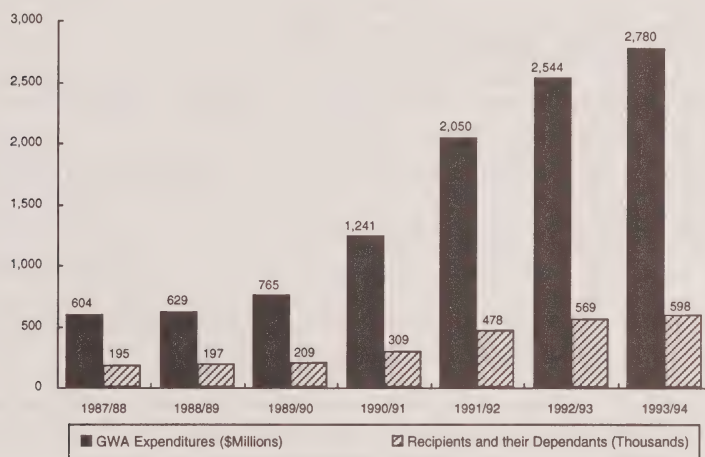
The program is administered and delivered by around 350 municipalities and First Nations. In the 1993/94 fiscal year, these municipalities and First Nations handled an average monthly caseload of 350,000 recipients plus 250,000 of their dependants. This represents a 200% increase since 1987/88. Approximately 75% of general assistance expenditures and caseloads are concentrated in 10 large municipalities. First Nations handle about 2% of the caseload.

Until the end of the 1989/90 fiscal year, most GWA benefit payments were shared 50% by the federal government and 30% by the provincial government in accordance with the terms of a federal/provincial cost-sharing agreement under the *Canada Assistance Plan Act*. The remaining 20% of these payments was paid by the area municipal governments. With the enactment of the *Federal Government Expenditures Restraint Act* in fiscal 1990/91, the federal government has limited its share to a 5% yearly increase until 1994/95. Due to this Act, the provincial shares for both program and administration have increased since 1990/91.

While the majority of municipal costs incurred in administering the GWA program were shared equally by the federal and area municipal governments in the past, the province now pays a share as well.

For the 1993/94 fiscal year, GWA payments by the Ministry of Community and Social Services, consisting of the federal and provincial government shares of the GWA benefits and administration costs, totalled approximately \$2.8 billion. This represents a greater than 300% increase from the \$604 million noted in our 1988 *Annual Report*. The federal government's contribution towards the expenditures of \$2.8 billion was approximately \$658 million, which represents about 24% of federally approved expenditures.

Overall, the total GWA benefit payments and administration costs for the 1993/94 fiscal year were shared 24% by the federal government, 61% by the provincial government and 15% by the municipal governments.



Source: Ministry of Community and Social Services

The Ministry operates through a head office and 13 area offices. Responsibility for the GWA program is shared by two Divisions: Social Assistance and Employment Opportunities; and Program Management.

The Director of Income Maintenance is the head of the GWA program and reports directly to the Assistant Deputy Minister of Social Assistance and Employment Opportunities. According to the *General Welfare Assistance Act*, the Director is required to "exercise general supervision over the administration of this Act and the Regulations and shall advise municipal welfare administrators, regional welfare administrators and others as to the manner in which their duties under this Act are to be performed."

Each of the Ministry's 13 area offices is responsible for communicating with the municipalities in its geographic area to disseminate information about legislation and Ministry

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policies and procedures and to monitor the delivery of all Ministry programs, including GWA. The area offices report directly to the Assistant Deputy Minister, Program Management.

The Ministry has been considering the reorganization of its social assistance programs for some time. In July 1993 it announced that it planned to replace the current GWA system with three programs which, in addition to providing assistance for those in need, would emphasize helping welfare recipients to make the transition to independence.

In March 1994, the federal government announced freezes to welfare spending. The Ministry has assessed the impact of these freezes and is proceeding with social assistance reform within the current fiscal realities. According to the Ministry, the focus of the reform will include getting people off the system and into the work force and implementing initiatives aimed at better management and improved client service.

## OBJECTIVES AND SCOPE

Our audit objectives were to assess the Ministry's procedures for monitoring the operations of municipalities to determine:

- compliance with the *General Welfare Assistance Act* and Regulations and Ministry policies and guidelines; and
- the operational effectiveness of municipal administration of the GWA program.

Our audit included visits to two Ministry area offices and sending survey questionnaires to five other area offices, as well as visits to two large municipalities. We visited the municipalities to gather information about how they were administering the GWA program. We also contacted a municipal association and a stakeholder group.

Because most of the GWA program is administered through municipalities, our audit focused on the Ministry's monitoring of municipalities and did not cover GWA administered by First Nations.

## AUDIT OBSERVATIONS

We found that the Ministry's monitoring procedures require strengthening and better coordination to ensure compliance with various legislated and policy requirements and to improve the operational effectiveness of municipal administration of the GWA program.

## COMPLIANCE WITH LEGISLATION AND MINISTRY POLICIES AND GUIDELINES

### REVIEW OF CLAIM FORMS AND CASE FILES

Municipalities submit monthly claim forms to area offices for reimbursement of general assistance and administrative expenses incurred. Area offices are supposed to review municipal claim forms for accuracy. Area offices also review case files which contain

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details of GWA assistance granted to recipients, to verify the eligibility of program recipients and to identify program delivery issues.

At the time of our audit, the Ministry's 13 area offices had a total of 44 Program Review Officers who were responsible for conducting GWA reviews as well as monitoring many other Ministry-funded programs. For the two area offices we visited and five others we surveyed, we noted a wide variation in the way reviews were conducted.

Information gathered from these reviews is not submitted to or summarized for the Director of Income Maintenance who, therefore, has insufficient evidence that municipalities are providing general assistance only to eligible recipients.

### **FREQUENCY AND EXTENT OF REVIEWS**

**3.03**

The Ministry's Claims Examination Manual states that the examination of claims must be kept up to date and that Program Review Officers should visit large municipalities monthly and smaller ones at least once every three months to review claim forms for accuracy.

Based on information obtained from the two area offices we visited and responses from the five offices we surveyed, the average time since the last claim form review was conducted was approximately 10 months as of December 31, 1993. Further, we found that claim forms for several large municipalities had not been reviewed in recent years. This was also the case at the time of our 1987/88 audit of the GWA program. Such omissions are contrary to the intention of the Ministry's Claims Examination Manual, which encourages "the planning of the work to be done and guarding against situations where large municipalities may be neglected."

Also, as noted in our 1988 *Annual Report*, there are still no Ministry-wide standards or guidelines for the number of case files to be reviewed by Program Review Officers. In our review of two area offices and from responses to survey questionnaires sent to five other offices, we found that the target percentages for case file reviews ranged from 3% to 10% of the caseloads. Many area offices in our sample were reviewing 1% of their active caseloads.

According to the Ministry's Claims Examination Manual, the standard for numbers of claim forms to be reviewed is dependent upon the time available and the size of the account.

We found that detailed case file reviews by Program Review Officers had not been done in recent years in many instances. As of December 31, 1993, the average time since the last GWA case file review for the seven area offices we visited or surveyed was 17 months. We noted that the case files of four municipalities, currently representing approximately 40% of total GWA caseloads and \$1 billion in assistance payments, had not been reviewed for over seven years. However, we noted that the two large municipalities we visited had reports from their own review units and from both internal and external auditors which could provide information about municipal compliance with program requirements. However, the Ministry had not availed itself of this information.

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## TRAINING OF PROGRAM REVIEW OFFICERS

Ministry job descriptions for Program Review Officers indicate that they are required to have specialized knowledge of the legislation, regulations and policies applicable to the delivery of social assistance programs. However, as noted above, one of the important functions of Program Review Officers is to perform audits of claim forms and case files. Program Review Officers we spoke with stated a need for formalized training in audit techniques. They reported that current training is limited to training on-the-job at each area office.

No Ministry-wide standard review procedures or common reporting formats for reviews are available. This results in inconsistent approaches to file reviews and in summarizing concerns noted during these reviews.

In fact, of the two area offices we visited and five area offices we surveyed, only one had developed a detailed audit plan for claims examination and case file reviews to ensure consistency of reviews for that office. We were informed that two other area offices had developed their own internal manuals for Program Review Officers. The other area offices stated that they used the Claims Examination Manual as a general guide.

## INTERNAL REVIEW

In 1991, the Ministry prepared an extensive *Report on Monitoring Activities in Income Maintenance and Related Needs Tested Programs*. The report contained 24 recommendations aimed at ensuring adequate and appropriate monitoring and dealt with such topics as monitoring scope, adequacy of resources, stewardship, formal training needs, communication of agency performance and reporting relationships. Our current audit observations confirmed the findings in this 1991 report. However, the recommendations have not yet been implemented. In 1993, the report was updated and, at the time of our audit, the Ministry was considering a plan of action to address many of the recommendations contained in the report.

## RECOMMENDATIONS:

**The Ministry should decide what level of assurance it requires from claim form and case file reviews. Using that level as a guide, it should determine its information requirements and develop uniform standards for the conduct of reviews, including the format, frequency, method of file selection and percentages of files to be reviewed.**

**The Ministry should base its review procedures on risk assessments of municipalities, taking into consideration the fact that large municipalities have access to many resources such as internal audit departments, specialized departments and external audit reports which can help the Ministry determine the extent of its review procedures.**

**The Ministry should ensure that key performance information is summarized and reported to the Director of Income Maintenance, to enhance effective supervision of program administration.**

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The Ministry should develop and provide standardized training to all Program Review Officers to ensure consistency and quality of work performed.

**MINISTRY RESPONSE:**

*Standards involving percentage and frequency of reviews, format and method of file selection, and required monitoring activities of Program Review Officers are presently being reviewed and will be defined by early fall 1994. Ministry information requirements from these activities will be identified and, where needed, summarized results will be reported centrally.*

*The Ministry supports the concept of using a "risk assessment" to determine the standards for case reviews and claim forms. The Ministry is aware that there are municipalities where dependable and relevant audit information exists. These will be used as one of the tools to monitor the GWA system.*

*The Ministry agrees that a summary of key performance information should be forwarded to the Director of Income Maintenance to enhance effective supervision of program administration. The Ministry is in the process of identifying and establishing the performance information necessary for central reporting.*

*The Ministry has included Program Review Officer training in the overall Income Maintenance Training Plan and has identified some of the basic training needs. Once standards and expectations are set, further training needs will be identified. Based on the identified needs, the Ministry will develop and provide standardized training to all Program Review Officers to ensure consistency and quality of work performed.*

## REVIEW AND MONITORING OF OVERPAYMENTS

In our 1987/88 audit of the GWA program, we found that monitoring of overpayments made to recipients was inadequate. We found the situation little improved in this audit.

Overpayments occur when the assistance paid exceeds the assistance GWA recipients are legitimately entitled to receive. GWA legislation empowers municipalities to recover overpayments that arise as a result of delays by recipients in failing to report changes in personal or family circumstances, or in not disclosing or misrepresenting relevant facts. Overpayments arising from errors made by the municipalities are absorbed by the GWA program.

Overpayments due from active recipients (those still receiving GWA) are generally recovered by municipalities through the reduction of recipients' monthly payments by 6% to 7%.

If a recipient ceases to be eligible for assistance (inactive recipient) before the overpayment has been recovered, other arrangements are made to collect the amount owed. If an inactive recipient refuses to repay a debt, municipalities can consider taking civil action. Their decisions to do so depend on the amount involved and the reasons for the overpayment. Because GWA is administered by municipalities, the Central Collection Service of the Management Board Secretariat has no jurisdiction over GWA overpayments.

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## ANALYSIS OF OVERPAYMENT INFORMATION AND COLLECTION EFFORTS

Based on our visits and responses to our survey questionnaires, we found that the Ministry's area offices do not regularly review or analyze the status of total outstanding overpayments collectable by municipalities. Only those case files that the area offices select for review and which show overpayments are followed up.

The Ministry has two main computer systems, the Comprehensive Income Maintenance System (CIMS) and the Municipal Assistance Information Network (MAIN) system, which account for approximately 85% of the total GWA caseloads. According to the CIMS and MAIN systems, cumulative net GWA overpayments outstanding as of December 31, 1993 were approximately \$90 million. However, the Ministry does not regularly review this overpayment data; therefore, this figure has not been verified by the Ministry.

The accuracy of this overpayment data is questionable, as the following instance illustrates:

- Our review of net outstanding overpayments recorded on the CIMS and MAIN computer systems showed that, as of December 31, 1993, the municipalities under one area office had approximately \$20 million, while the municipalities under another larger area office had approximately \$10 million in outstanding overpayments. However, despite having more than twice the amount of overpayments, the municipalities under the first area office had less than a third of the caseloads (about 36,000) compared to 119,000 caseloads for the municipalities under the second area office. The corresponding average GWA monthly expenditures for 1993 for the municipalities of the two area offices were approximately \$29 million and \$90 million respectively.

The overpayment amounts of the municipalities within these two areas are strikingly out of line with their caseloads and expenditures. The Ministry was unable to explain whether this discrepancy was due to differences in methods of overpayment prevention and recovery or some other reason(s). There is a need for the Ministry to determine why situations like this one exist, and, if there are deficiencies, to ensure that they are corrected.

The remaining 15% of the GWA caseloads are handled by various municipalities on stand-alone computer systems or manually. The Ministry does not regularly collect overpayment data related to these systems and any overpayments recorded on them are not included in the previously mentioned \$90 million overpayment figure.

We noted that, as of December 31, 1993, of the approximately 150,000 active and inactive recipients shown on the CIMS and MAIN systems as having received overpayments, about 60,000, or 40%, had not repaid any of their outstanding amounts. Of the \$90 million total outstanding, \$65 million was owed by inactive recipients. Some 80,000 of these recipients had overpayments totalling \$44 million that had been outstanding for two years or more.

This underscores the importance of independent verification of facts at the time of application for assistance to minimize the incidence of overpayments, since preventing overpayments would be easier than recovering them, especially in the case of inactive recipients. If overpayments are made, it is easier to recover them while recipients are active and the means of recovery more readily available. This requires good case management by municipal caseworkers to identify overpayments as soon as possible.

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## RECOMMENDATIONS:

The Ministry should ensure that adequate procedures are in place at all municipalities to prevent, detect and follow up on overpayments.

The Ministry should monitor municipalities for compliance with these procedures.

The Ministry should also compare information on overpayments between area offices to ensure that unusual overpayment situations are identified for investigation and that appropriate action is taken as necessary.

## MINISTRY RESPONSE:

*The Ministry will ensure that overpayment procedures are in place and that these procedures are monitored. This would include both sharing of good business practices in overpayment procedures, and reviewing unusual situations related to overpayment data.*

## MINISTRY EFFORTS TO REDUCE ABUSE IN THE SYSTEM

Eligibility for GWA is, to a large extent, based on applicants' declarations of assets and the subsequent verification of those declarations by municipalities. For example, applicants are required to declare assets such as cash on hand and in banks, investments, receivables, financial interests in business and real property. Similarly, they are required to declare various sources of income such as Old Age Security, Canada Pension Plan, annuities, superannuation and insurance benefits. Although these declarations are verified by the municipalities, errors, intentional or otherwise, may still arise which could affect recipients' eligibility or the amount of assistance they receive.

In 1987 a study conducted by a consultant retained by the Ministry's Social Assistance Review Committee suggested that the proportion of welfare funds lost through abuse could be from 2.59% to 3.66% of the total payments by the Ontario social assistance system. The Ministry advised us that no other formal studies on levels of abuse within the system have been done in Ontario since then.

The municipalities are responsible for administering and delivering GWA as well as for taking initiatives to minimize abuse of the system. A Regulation to the *General Welfare Assistance Act* states that municipalities may exchange information with the governments of Canada and other provinces or their agencies in order to verify eligibility of applicants for assistance. The degree of information sharing with these bodies depends mainly on the commitment and efforts of individual municipalities.

Information obtained from our visits to two area offices and responses to our surveys of five other offices, showed that Ministry-wide, co-ordinated efforts in this area are limited. Municipal initiatives vary and include such activities as: the matching of applicant data with other income support programs such as Canada Pension, Unemployment Insurance and Workers Compensation to reduce error and abuse and to prevent overlaps in the payment of assistance; the matching of applicant data with data from other municipalities and border jurisdictions to ensure that no one is receiving social assistance in more than one jurisdiction at the same time; and other techniques such as fraud hotlines, eligibility reviews, special investigation units, home visit blitzes and assistance-cheque pickup exer-

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cises. The Ministry has not evaluated the efforts of the municipalities to identify "best practices" for communication to other area offices and municipalities.

GWA recipients do not generally receive both GWA and Unemployment Insurance payments at the same time. Since July 1993, there has been an agreement in place between the provincial and the federal governments which enables municipalities to recover moneys directly from the federal government in cases where welfare payments are made to individuals who are also entitled to receive Unemployment Insurance benefits for the same period. This linkup is expected to generate approximately \$159 million in savings from 1992/93 to 1994/95. To January 1994, it had recovered approximately \$20 million for the GWA program.

The Ministry is currently in the process of developing agreements with other departments in the federal government to facilitate detection of duplicate payments or to identify information which could affect assistance amounts or eligibility for the program. Additionally, an Enhanced Verification fund established by the Ministry in August 1993 will provide support to municipalities that wish to focus their efforts in this area. This initiative is further discussed in a subsequent section.

## **INFORMATION TECHNOLOGY**

As indicated earlier, the Ministry's two main computer systems, CIMS and MAIN, account for approximately 85% of the provincial caseloads. The remaining 15% of the caseloads are handled by municipalities using stand-alone computer systems or manual systems.

We found that the Ministry does not regularly obtain and match data from these stand-alone and manual systems to data in the Ministry's systems to identify potential duplications for follow-up. In our visits to two municipalities, we did find that the larger municipality had taken the initiative to obtain data on a quarterly basis from nearby municipalities on stand-alone systems for matching against its data to ensure that no unusual situations go undetected. Results of this matching are not regularly requested by the Ministry.

The Ministry is currently involved in a joint project with this municipality to develop by 1996 a new computer system called the Caseload Management Automation System. This new system is intended to be used province-wide. Since it will have data about all cases, it will facilitate better monitoring and abuse detection. The system is also intended to improve case management and ongoing eligibility reviews of welfare recipients.

## **RECOMMENDATIONS:**

**The Ministry should share with municipalities "best practices" identified through its review of municipal activities in preventing and detecting abuse of the program.**

**Until the Caseload Management Automation System becomes operational, the Ministry should, where feasible, obtain and match data from stand-alone and manual systems to its two main computer systems to identify potential duplications for follow up.**

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### **MINISTRY RESPONSE:**

*The Ministry agrees, and will facilitate sharing of best practices associated with increased efforts to reduce abuse in the system as these are identified.*

*The Ministry places a high priority on detecting and reducing abuse in the program and recognizes the importance of data matching, and will, where feasible, obtain and match data from existing databases.*

## **ENHANCED VERIFICATION**

As indicated earlier, in August 1993 the Ministry established a \$16 million Enhanced Verification fund to be used from 1993/94 to 1995/96 to cover administrative costs for implementing or enhancing activities that would result in cost-savings for the GWA program. Such activities can include case management, intake procedures, file closures, training and staffing. Allocations are based on average caseload size and approvals are given only for proposals that are expected to result in cost-savings for the program. For example, one large municipality received an allocation of approximately \$150,000 during the 1993/94 fiscal year for a proposal which indicated an expected net cost-savings of approximately \$600,000. As of March 1994, the Ministry had approved 40 applications, the majority of which were to improve the recovery of overpayments and to reduce abuse in the program.

In March 1994, the Ministry increased the Enhanced Verification fund to \$24 million. The additional \$8 million to be distributed from 1994/95 to 1995/96 is targeted specifically to increasing municipal efforts to concentrate on overpayment recoveries and detection of abuse in the program. Overall, the Ministry expects to generate cost-savings of about \$65 million through Enhanced Verification activities.

As this project has just commenced, we will follow up on the fund's success in achieving cost-savings at an appropriate time.

## **ADMINISTRATION COSTS**

The majority of administration costs incurred by municipalities in delivering the GWA program are funded by municipalities and the federal government. To comply with the requirements of the GWA legislation, and to satisfy the requirements of the federal/provincial cost sharing agreement under the *Canada Assistance Plan Act*, these costs have to be approved by the Ministry.

Accordingly, municipalities submit annual budgets for administration expenses to the Ministry's area offices for review and approval. Then, on a monthly basis, the municipalities submit claims to recover their share of the approved administration expenditures incurred. The claims are paid by the Ministry and subsequently recovered from the federal government. In the 1993/94 fiscal year, the Ministry paid \$142 million (1992/93: \$117 million) to municipalities and First Nations for administration expenses on behalf of the federal government.

Funds are allotted to area offices for municipal administration costs and the area offices must approve municipal budgets for such costs within the funds allotted. However, in our

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1987/88 audit we found that the municipal budgets for one large municipality, which receives approximately 40% of the funds allotted for administration expenses, had not been approved by the Ministry for the previous four years. During our current audit, we found that the 1992 and 1993 budgets for administration expenses for that municipality had not been formally approved by the Ministry at the time of our audit. In fact, we noted that the municipality's 1993 budget request included approximately 193 new budgeted positions compared to the 1992 budget. Since the Ministry had not formally approved the budgets, it had not clearly established whether the increased expenditures were appropriate and reimbursable within the funds allotted.

#### **RECOMMENDATION:**

**The Ministry should review and approve municipal budgets for GWA-related administration costs to determine whether allotted funds are distributed equitably to all municipalities.**

#### **MINISTRY RESPONSE:**

*The Ministry does review and approve municipal budgets and will ensure that documentation confirming the approvals of these costs are completed on a timely and equitable basis. A more formal communication process will be established to document reviews and approvals.*

## **EFFECTIVENESS OF MUNICIPAL ADMINISTRATION**

### **REVIEW OF FUNDING ARRANGEMENTS**

The Ministry's Claims Examination Manual has established guidelines for funding allocations to ensure that there are consistent staff-to-caseload ratios within each municipality. The Manual states that "fairness in the distribution of funds requires an evaluation of costs as well as staffing levels."

Our review of two area offices and responses from five others surveyed showed that four did not use the above guidelines to assess overall staffing levels in the administration budgets. In practice, annual increases to municipalities are limited to a fixed percentage of their previous year's approved administration budget.

We reviewed the staffing levels of the five municipalities with the largest administration budgets per case to the five municipalities with the lowest budgets per case. We found that four out of five municipalities with the largest budgets had the lowest case-to-case-worker ratios and that four out of the lowest five municipalities had the highest ratios.

In addition our review of the administration costs claimed by municipalities in 1993 showed variations from a high of \$500 to a low of \$175 per case. There was no evidence to indicate whether the Ministry had reviewed these variations on a program-wide basis for reasonableness or had shared those situations considered to be "best practices" with welfare administrators.

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**RECOMMENDATIONS:**

**The Ministry should develop consistent standards for review and analysis of municipal costs of administration.**

**The Ministry should regularly review statistical information to identify unusual fluctuations or variances for follow-up and corrective action as necessary and should identify and communicate “best practices” to all welfare administrators.**

**MINISTRY RESPONSE:**

*The Ministry, in conjunction with area offices and municipalities, will develop performance indicators relating to municipal administrative costs.*

*The Ministry supports the identification and facilitation of all “best practices.” The Ministry will be taking a lead role with municipalities in regularly identifying and sharing these practices among municipalities.*

**EFFECTIVENESS MEASURES**

According to their job descriptions, Program Supervisors are required to monitor and evaluate municipal delivery systems for efficiency and effectiveness.

Our review of area offices showed a variety of such measures in use. These included responses to complaints, timeliness of service delivery and results of procedural reviews.

We also noted that an *Income Maintenance Base Review Report* for provincially-delivered programs was prepared by the Ministry in 1991 which recommended many standards for program delivery. Examples of recommendations in this report included:

- completing an assessment of client needs and making appropriate referrals as requested;
- ensuring records are available to substantiate eligibility and entitlement;
- maintaining a training package specific to eligibility review and program review functions; and
- timeliness of assistance.

However, at the time of our audit, there were no province-wide standards for measuring the effectiveness of programs in place.

**RECOMMENDATION:**

**The Ministry should consider setting standards, taking into account studies already conducted, to assess the effectiveness of program delivery and communicate these to the area offices to help ensure consistent treatment of recipients across the province.**

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## **MINISTRY RESPONSE:**

*The Ministry has established a Social Assistance Accountability and Monitoring Plan. The Ministry will:*

- *establish Ministry objectives, goals and standards around monitoring;*
- *ensure consistency in monitoring activity across the province; and*
- *establish standard measurements to evaluate program effectiveness and consistent treatment of recipients across the province and will monitor these measurements.*

## **OTHER MATTER**

### **EMPLOYMENT EFFORTS**

In February 1992, the Ministry created the Social Assistance and Employment Opportunities Division by drawing together the Income Maintenance Branch and the Employment Services Unit. Although the GWA legislation does not refer to employment as a mandatory objective of the program, the Ministry has recognized the need to address this issue. The purpose of the new Division is to manage reform of the social assistance system, moving its focus from income maintenance to actively helping clients make the transition to independence.

The Ministry's Supports to Employment Program (STEP) is intended both to help welfare recipients become self-supporting and to save the social assistance programs money. Recipients of both GWA and the Ministry's other major welfare program, Family Benefits Assistance, may be eligible for STEP.

Introduced in 1989, STEP provides financial incentives to encourage welfare recipients to enter the labour force and reduce their need for social assistance by ensuring that they are better off than they would be if they relied on assistance alone. The program also assists to some extent with such work-related expenses as day-care, training and the cost of uniforms. Individuals who participate realize cost-savings for the Ministry, since the amount of welfare they are given is reduced.

For the 1992/93 fiscal year, the Ministry recorded that approximately 53,000 individuals participated in the program. The Ministry collects limited data on cost-savings resulting from the program and does not regularly analyze this data.

STEP was last evaluated in 1991 by consultants hired by the Ministry. The consultants concluded that the program was an important factor in helping recipients enter training and employment programs. The consultants also stated that, although the full potential of the program had not yet been reached, STEP was moving towards achieving its program objective of making social assistance recipients better off when they are employed than they would be on welfare. However, the study did not provide an evaluation of the actual costs of the program or the savings it had achieved.

No subsequent evaluations of the program have been undertaken. The information requirements of the Ministry for this program are limited to estimated and actual number of

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clients participating and the documented reasons for their subsequent removal from the employment program, if applicable.

**RECOMMENDATION:**

The Ministry should regularly gather detailed operational information related to costs and savings to enable it to measure, report and evaluate the effectiveness of the Supports to Employment Program (STEP).

**MINISTRY RESPONSE:**

*The Ministry prepares detailed monthly operational STEP reports. These are used to measure the effectiveness of STEP by the number of participants and the amount of Social Assistance that does not have to be paid. Although these reports will continue to be prepared, the Ministry agrees that a formal cost savings formula would provide a more detailed assessment of STEP savings. The Ministry will assess the feasibility of developing and implementing such a formula.*

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# Violence against Women

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The government spends approximately \$90 million annually on wife and sexual assault prevention initiatives. The Ministries of Community and Social Services and the Solicitor General and Correctional Services are the major funders of these initiatives. The initiatives are co-ordinated by an Interministerial Committee on Violence against Women Prevention with representation from about 10 ministries including the Ministry of Community and Social Services. The Committee is chaired by the Ontario Women's Directorate, a central policy advisor on women's issues within the provincial government.

As the major contributor towards the wife assault prevention initiatives, the Ministry of Community and Social Services administers a program called "Violence against Women." The program is administered under the legislative authority of the *Ministry of Community and Social Services Act* and the *General Welfare Assistance Act* and Regulations. Information pertaining to the program is shared with the Interministerial Committee on Violence against Women Prevention, which meets quarterly.

The objectives of the Violence against Women program are to provide:

- temporary emergency accommodation in community-based shelters for abused women and their children as well as residential support services such as child care, crisis telephone lines, counselling and emergency transportation; and
- community-based counselling, outreach, violence prevention and public education programs for abused women and their families (including the abusive partners of these women).

Services are delivered by approximately 100 non-profit shelters and over 200 non-profit, community-based counselling agencies. Currently, the shelters have a collective bed capacity of approximately 1,500 beds.

The primary function of shelters is to provide residential 24-hour-a-day, seven-day-a-week accommodation and safety to abused women and their children. The shelters also provide programs and services designed to meet the crisis needs of these women and their children. Any woman who identifies herself or is identified as having been physically, sexually or emotionally abused by her partner is eligible for service.

The Ministry of Community and Social Services has the overall responsibility for ensuring that funds provided under its Violence against Women program are spent properly by the shelters and counselling agencies.

The majority of the funding for the Violence against Women program is provided by the federal and provincial governments, with the balance being provided by municipalities and through fund-raising activities by the shelters and agencies. The federal government contributes its funding in accordance with the terms of a federal/provincial cost-sharing

agreement under the *Canada Assistance Plan Act*. In the 1990/91 fiscal year, the *Federal Government Expenditures Restraint Act* put a ceiling on the Canada Assistance Plan transfers to various provinces including Ontario. Consequently, since April 1, 1990 the Ministry of Community and Social Services has been receiving a smaller contribution from the federal government.

For example, for the 1989/90 fiscal year the program costs paid by the Ministry, consisting of both the federal and provincial government shares, totalled approximately \$41.8 million. Of this total, the Ministry was reimbursed \$18.8 million (45%) by the federal government for its share of the costs. In comparison, for the 1993/94 fiscal year the program costs totalled approximately \$69.5 million. Of this total, the Ministry was reimbursed \$16 million (23%) by the federal government for its share of the costs.

The Ministry administers the program through its head office and 13 area offices. The head office is responsible for developing policy, and the area offices are responsible for monitoring and evaluating the shelters and agencies and for making the scheduled transfer payments to these entities. The head office unit responsible for policy development reports to the Assistant Deputy Minister, Policy and Program Development, Children, Family and Community Services. The area offices report to the Assistant Deputy Minister, Program Management. There are the equivalent of 12.5 full-time Ministry staff allocated to this program.

Over the last five years the Violence against Women initiatives have evolved into a substantial program with a wider range of services, and program expenditures have increased by over 65%. In recognizing the program's growth, the Ministry advised us that it has begun substantive work to support the administration of the program.

## OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry had appropriate accountability mechanisms in place for its Violence against Women program to determine:

- whether the shelters and community counselling agencies delivering the program were in compliance with legal agreements and Ministry requirements; and
- whether there were procedures to measure and report on the effectiveness of the program.

Our audit included visits to two Ministry area offices and survey questionnaires sent to five other offices, as well as visits to two emergency shelters and a community counselling agency. We also contacted representatives of two large municipalities and an advocacy group.

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# AUDIT OBSERVATIONS

## ACCOUNTABILITY

### COMPLIANCE WITH LEGAL AGREEMENTS AND MINISTRY REQUIREMENTS

In 1988, the Management Board of Cabinet issued a Directive which required the establishment of an effective framework to hold transfer payment recipients accountable for their management of public funds. An underlying principle of the Directive is that the expenditure of public funds should be managed prudently to meet the objectives of programs and to ensure that the related services are delivered effectively.

The *Ministry of Community and Social Services Act* and the *General Welfare Assistance Act* and Regulations are very general with respect to the Violence against Women program, and there are no Ministry policies and procedures governing it. Accountability for the program is exercised through legal agreements signed by both the Ministry and the service providers. Each agreement has three schedules in which the service provider must include at least the following minimum information:

- a budget schedule, which includes the annual budget and the maximum amount the Ministry will pay;
- a program description schedule, which includes a service description, program objectives, estimated number of clients and method of evaluation; and
- a staffing schedule, which includes number, type and qualifications of staff. Salaries may be listed as well.

In our visits to two area offices, we reviewed legal agreements for a representative sample of shelters and agencies within the jurisdiction of the area offices. We found that all agreements were properly signed and had budget schedules attached which gave the minimum information required.

However, we found the following deficiencies in the program description and staffing schedules:

- six of the 13 shelter files we reviewed at one area office had no program description schedule. Program description schedules are critical, because they are the only means by which the Ministry can set its expectations of service providers and establish reporting requirements;
- in the case of both area offices, the schedules contained varying information which often did not meet the minimum requirements established by the Ministry. For instance, one program description schedule listed only the number of beds along with a two-line description of their purpose while another schedule included program objectives as well as a description of services to be provided and the method for evaluating them;
- none of the program description schedules we examined included an estimate of the number of clients to be served, although this is required and is a target against which to measure actual services provided; and
- none of the staffing schedules we examined listed the qualifications of staff.

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The legal agreements and schedules are standard documents used Ministry-wide and have not been tailored specifically to this program.

#### **RECOMMENDATION:**

**The Ministry should review existing legal agreements and schedules and identify information requirements specific to the Violence against Women program. The Ministry should then ensure that this information is provided uniformly by all shelters and agencies.**

#### **MINISTRY RESPONSE:**

*We agree. The Ministry has undertaken to address this through the Better Business Practices Unit. We are developing a single consolidated legal agreement, with a corresponding service description schedule. Implementation is taking place and will include the Violence against Women program.*

### **EFFECTIVENESS OF PROGRAM DELIVERY**

#### **PROGRAM STANDARDS**

Funds to shelters are provided based on a "shelter funding formula." This formula includes a minimum staff-to-bed ratio. Other than this ratio, the Ministry has not developed any standards, service directives or guidelines for the shelters and agencies providing services to abused women and their families. Without standards, there are no benchmarks against which to evaluate the effectiveness of shelters and agencies.

Program Supervisors from all seven area offices we visited or surveyed stated that there was a need for Ministry standards specific to the Violence against Women program to provide guidance to shelters and agencies and to ensure consistent practices province-wide. Areas specifically mentioned by the Program Supervisors as needing standards included: health and safety; dispensing of medication; emergency back-up procedures; orientation procedures; and confidentiality.

These concerns are consistent with those raised in 1991 by the Ministry's Comprehensive Audit and Review Branch based on the audit of one large area office. The Branch's report stated that there were no established program policies, standards, service directives or guidelines for the program, thus creating the risk of inconsistent treatment of agencies and shelters by area offices.

A report prepared in November 1992 by an external consultant hired by the Ministry concluded that with no province-wide standards and the existence of limited monitoring and evaluation mechanisms with respect to clients, services and costs, the cost-effectiveness of all shelters, including shelters for abused women, was difficult to assess. We found the situation little improved in this audit.

We were informed by the Ministry that many of the existing shelters were established by people who are committed to helping abused women, but who may have had limited prior

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experience with corporate management. In our opinion, this makes the establishment of standards by the Ministry all the more urgent.

One of the two large municipalities we visited had developed standards and guidelines for shelters including primary service components and health and safety requirements as well as a code of conduct. We were informed by the municipality that all shelters receiving funding from the municipality had to comply with these published standards and requirements as a minimum.

We conducted a limited review of other jurisdictions and found that the Alberta and Manitoba governments had developed standards for their family violence programs. The intent of these program standards was to ensure that clients received quality care while recognizing and retaining the agencies' right to autonomy in their operations. Some of these standards included health and safety standards, dispensing of medication and a requirement that shelter staff have the qualifications outlined in the job descriptions. The standards also require shelters to have by-laws which address the election of governing boards, board size and composition, and the roles and responsibilities of members and officers.

## **RECOMMENDATIONS:**

**The Ministry should develop standards and guidelines for delivery of its Violence against Women program. In doing so, the Ministry should consider standards and guidelines already established for similar programs in municipalities and other Canadian jurisdictions.**

**Once standards and guidelines have been developed, the Ministry should monitor the performance of shelters and agencies against these standards on a regular basis. Any concerns identified should be followed up and corrective action taken as needed.**

## **MINISTRY RESPONSE:**

***We agree that additional accountability mechanisms need to be developed. Our Violence against Women Accountability Framework will use a program performance and client outcome approach. The emphasis will be on establishing clear service expectations, and accounting for the achievement of these expectations. Standards and guidelines will be developed that support the carrying out of this operational framework. We will also review standards developed by other jurisdictions.***

## **MANAGEMENT INFORMATION**

The Ministry's head office collects statistical information on each shelter and agency on a quarterly basis from each area office through a computerized database. The operational information collected includes the number of full-time equivalent staff members, bed capacities and occupancy rates.

We reviewed the information from the database and found that it was not accurate. For example:

- at one area office, the bed capacities of four of the eight shelters in its jurisdiction were incorrectly recorded on the database. Since the occupancy rates recorded in the system are based on bed capacities and total reported person-days, this resulted in incorrect information being used to develop occupancy rates; and
- the minimum staff-to-bed ratio specified in the Violence against Women program's funding formula varies depending on the number of beds. In reviewing the staff numbers and bed capacities shown on the database for the 1992/93 year, we found that some shelters had staff in excess of the numbers stipulated by the ratio. We were informed that in some cases this was due to staff hired for other purposes being improperly included on the database which would cause resulting staff-to-bed ratios to be inaccurate.

Additionally, due to the limited operational data being collected, the usefulness of the database for monitoring and evaluating services and programs and for decision-making was questionable. For example:

- the Ministry did not know how many women and children referred to shelters could not be admitted because the shelters were full; and
- no operational data was being collected about counselling, outreach, prevention and public education programs, all of which are included in the overall Violence against Women program objectives.

We also noted that the Ministry did not review or analyze at the corporate level information from all area offices to determine if there were any unusual fluctuations or trends requiring follow-up or corrective action. For instance, there was no comparative analysis or evaluation of occupancy rates and costs per resident for shelters to determine whether differences were reasonable and justified.

The Ministry, in recognizing the shortcomings of its management information system had, at the time of our audit, prepared draft terms of reference for a proposed "Data Collection Project." A lack of reliable program data and information necessary for trend analysis and measurement of program effectiveness were cited as the main reasons for the project. This project is intended to address all Violence against Women activities, including counselling.

In the meantime, some Ministry area offices have established their own detailed information requirements specific to the Violence against Women program. For instance, one area office we visited had developed a detailed, quarterly statistical reporting system. Some of the information reported included: the number of counselling hours provided to women and children; the number of hours spent on public education and prevention programs; the number of women referred to a shelter; and number of women admitted.

### **RECOMMENDATIONS:**

**The Ministry should decide what information it needs from shelters and agencies in order to measure and evaluate the achievement of program objectives. Information currently available at the area offices should be reviewed to identify "best practices" which can be implemented by all area offices.**

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Once information requirements have been established, the Ministry should ensure that the information needed to meet these requirements is recorded accurately and kept current.

The Ministry should also analyze the statistical information from each area office to identify unusual fluctuations and trends for follow-up and corrective action, if needed.

**MINISTRY RESPONSE:**

*We agree. The Violence against Women Data Collection Project will determine what data elements are to be collected to enable us to monitor service trends and program outcomes. The activities within this Project, including changes to our automated systems and training, will result in the fulfilment of your recommendations.*

**FIELD VISITS**

We reviewed the job descriptions for the Program Supervisors, who are responsible for the Violence against Women program as well as other Ministry-funded programs. We found that they are required to develop and implement monitoring and evaluation procedures for the programs provided by shelters and agencies.

Our visits to two area offices and responses to survey questionnaires received from five others indicated that there were no standardized review procedures for field visits by Program Supervisors to shelters and agencies. Program Supervisors determined the areas for review on their own. In the absence of policies or procedures relating to the Violence against Women program, we believe the use of standardized review procedures would provide guidance to, and ensure consistency among, Program Supervisors in conducting their reviews.

In the seven area offices we visited or surveyed, we found that the frequency of field visits by Program Supervisors varied from once a month at one area office to one to four times a year at the others. We were informed that the purpose of the visits was typically to discuss with shelter and agency staff programming and budget issues as well as any other concerns that might have arisen.

At the two area offices we visited, the Program Supervisors carried out no specific evaluation of services or inspection of records relating to the services provided although the legal agreements allow Ministry staff access at reasonable times in order to "observe and evaluate the services" and "inspect all records relating to the services provided" in accordance with the agreement.

Furthermore, the results of field visits were not routinely documented in the Ministry files, creating a risk that concerns or problems brought to the Ministry's attention during visits could go unrecorded and would not be followed up during subsequent visits to ensure that any necessary corrections had been made.

Since municipalities also pay some of the shelter costs, we contacted two large municipalities to find out to what extent they monitored the activities of shelters. We noted that one municipality did not make visits to any of the funded shelters within its jurisdiction and maintained very little ongoing contact with them, while the other municipality visited each

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of its shelters four times a year and prepared written reports for each visit. However, the Ministry's area office staff did not receive or request copies of the municipality's reports and did not routinely co-ordinate their field visits with municipality staff to avoid duplication.

In addition, shelters and agencies have year-end audits conducted by external auditors. The two area offices we visited did not routinely contact the shelters and agencies to determine if the auditors had noted any significant reportable matters and, if so, whether appropriate action was being taken to correct them. Such information could be used in determining the frequency and extent of field visits to shelters and agencies.

### **RECOMMENDATIONS:**

**The Ministry should develop uniform standards for the conduct of field visits by Program Supervisors to shelters and agencies. These standards should include the frequency and scope of the reviews and take into account work performed by external auditors.**

**The Ministry should ensure that field visits are documented so that concerns noted during the visits can be followed up and to make sure that corrective action, where needed, has been taken. These visits should also be co-ordinated with the municipalities whenever possible to avoid duplication.**

### **MINISTRY RESPONSE:**

*One of the outcomes of the Accountability Framework for the Violence against Women program is the delineation of the roles and responsibilities of the Ministry, the municipalities, and the program supervisors. The result will be more clarity on who should do site visits, the frequency and purpose of these visits, and reporting requirements for site visits. This will contribute to consistency of practice between supervisors, and to a reduction in duplication of activities between the municipalities and the Ministry.*

# jobsOntario Training Program

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The jobsOntario Training program was announced by the Treasurer on April 30, 1992 as a three-year, \$1.1 billion skills development and employment program. It was intended to create up to 100,000 private sector jobs by March 1995 for social assistance recipients and individuals who have been unemployed for a prolonged period of time and who are ineligible for or have exhausted their unemployment insurance benefits. The program emphasizes training as an alternative to wage subsidy.

The Ministry of Education and Training is responsible for the administration of the program. Since the program is one of several jobsOntario initiatives of the Government, the Ministry receives direction and co-ordination with other jobsOntario initiatives from the Jobs Committee of Cabinet. The program operates under the authority, accountability and administrative frameworks approved by Cabinet on March 11, 1992. The program objectives are:

- to maintain and increase the skills base and employability of long-term unemployed people;
- to support the creation of a significant quantity of jobs for long-term unemployed people to overcome the impact of the current recession;
- to support the creation of new incremental jobs in the Ontario economy;
- to reduce the level of social assistance expenditures through the removal of barriers to employment for people on social assistance and by reducing the number of unemployment insurance exhaustees that will eventually end up on social assistance;
- to support the government's other economic and industrial development initiatives, in particular the redirection of the province's economic base toward higher-value added, high wage activities; and
- to involve local communities by delivering the program primarily through community- and sector-based "brokerage" organizations involving business, labour, and community interests.

The jobsOntario Training program head office has a staff of approximately 70, most of whom were seconded from other programs or ministries, or were hired on a contract basis due to the program's temporary nature. The program is delivered to individuals and employers by approximately 170 brokers and sub-brokers throughout the Province. Community and specialized brokers have been established in all major cities and for aboriginal people, persons with disabilities, and ethno-cultural groups. Non-profit organizations that

have been awarded brokerages include municipal governments, community colleges, school boards, and other local youth, training, employment and social services agencies.

A training credit is available to employers to cover the cost of training new and existing employees. The credit is limited to the lesser of 35% of a new employee's starting wages up to \$10,000 or actual training costs. A minimum of 50% of the funds must be applied to the training of the new employee based on a pre-arranged training plan, while the balance can be used for other employees' training needs, also according to a plan.

Consistent with program objectives the Ministry has established several eligibility requirements for participation:

- employers must have operated a profit-oriented business in Ontario for at least six months;
- jobs offered must be new, incremental, full-time positions that remain in existence for at least one year; and
- individuals must be Ontario residents that receive some form of social assistance, other than unemployment insurance benefits, or have exhausted their unemployment insurance benefits, or are long-term unemployed people who are ineligible for unemployment insurance.

Exceptions are permitted for aboriginal people who may work for aboriginal non-profit organizations and for persons with disabilities who may work part-time in a position that remains beyond one year.

Other features that also encourage employment or reduce barriers to participation include funding for up to 20,000 child care spaces (through the Ministry of Community and Social Services) and pre-employment training to registrants for basic skills upgrading to increase their potential for employment. The program also includes a community enterprise development initiative to assist communities and individuals develop self-employment opportunities.

Total expenditures of the program from inception to March 31, 1994 were as follows:

	(\$millions)	%
Employer training credits	224.1	66
Pre-employment training	31.6	9
Special economic renewal	15.3	4
Employment support	1.6	1
Administration - Brokers	54.9	16
- Head Office	14.3	4
	<u>341.8</u>	<u>100</u>

As of March 31, 1994, job placements totalled about 33,000. At the current rate of placement, the announced target of up to 100,000 job placements by March 31, 1995 may not be met. The Ministry advised us that several factors have delayed progress toward this target:

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- The program was planned to take advantage of an upswing in the economy which did not materialize as soon as expected. As a result, two six-month extensions have been approved for matching individuals with employers.
  - Pressure to have the program running promptly at the local level led to the decision to establish a diverse network of brokers across the province. While the selection process was well thought out and involved both community and government consultation processes, many brokers had not had previous experience with both training and employment programs, but were selected because they were considered the best organizations to deliver the program. Several had also not had previous dealings with the Ministry, or with their lead broker in the case of sub-brokers, and new accountability relationships had to be formed. These took longer to form than originally anticipated, particularly for larger brokers. In some cases, these relationships had to be terminated early in the program.

## OBJECTIVE AND SCOPE

Our audit objective was to assess whether the Ministry had established processes to manage the program cost effectively. More specifically, we assessed whether:

- satisfactory procedures were in place for measuring and reporting on the effectiveness of the program in meeting its stated objectives; and
- key management and financial systems, procedures and practices were in place at the Ministry and brokers to ensure the program is delivered economically and efficiently and to ensure program guidelines and eligibility requirements are complied with.

Our audit included an assessment of the Ministry's systems, procedures and controls for assisting and monitoring brokers. We also visited several brokers to assess their procedures and practices and sampled files of individuals and employers in order to evaluate the extent to which controls were working as intended.

## AUDIT OBSERVATIONS

### EFFECTIVENESS MEASURES

Overall, we concluded that the Ministry has made satisfactory efforts to establish procedures to measure and report on effectiveness. During our audit, it was too early in the program to verify reported results and savings. However, information systems for ongoing program evaluation and analysis were satisfactory and in accordance with those originally planned for the program. These efforts will be particularly important if the program or elements of it are continued beyond the initial three-year period.

To date, the reported effectiveness measures have focused primarily on job placements administered by the program. Information systems are in place to measure profiles of program participants including:

- applicants by age, equity designated group and eligibility;
- terminations and inactive applicants; and

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- employment by industry, occupation, wages and skill level.

During our audit, staff were in the process of revising and refining calculations for determining social assistance savings generated by the program according to actual profiles of social assistance recipients that used the program. Savings previously estimated were based on reasonable assumptions about typical social assistance recipients.

A comprehensive evaluation framework is in place which includes assessing participants training, employment supports utilized, social assistance savings, net new jobs, participant outcomes and the extent to which they return to social assistance, and brokers' performance. A complete program evaluation is planned a year after the last participants have been placed in employment. At the conclusion of our audit, the Ministry had selected a consultant to survey employees and employers who have completed the program. Surveys will be conducted in stages over the remaining life of the program.

One objective of the program is to involve local communities in delivering the program, and the evaluation framework includes plans to assess the cost effectiveness of brokers. Several of our recommendations for improving program administration should assist in this process. One area where planned evaluation methods should be expanded is the extent of support and the quality of community links that brokers established with local employment offices, social assistance offices, trainers, and municipal government. For example, it would be useful to know the extent to which brokers received referrals from other assistance programs, such as the Municipal/First Nation Employment Program funded by the Ministry of Community and Social Services, which funds communities to assist social assistance recipients prepare for, obtain, and sustain employment.

#### **RECOMMENDATION:**

**The Ministry should ensure that evaluations of the effectiveness of brokers include the extent of support and the quality of community links that were established with local employment offices, social assistance offices, trainers, and municipal government.**

#### **MINISTRY RESPONSE:**

*We agree that community links are very important to the effective delivery of the program, and took certain steps in initiating the program to ensure that linkages were made:*

- 1. The Request for Proposal for organizations wishing to be brokers required that they demonstrate the support and involvement of local agencies in the implementation of the program.*
- 2. Chosen brokers were all encouraged to have community advisory committees, and were also encouraged, and in some cases required, to have pre-employment training committees.*

*We recently completed an evaluation of all brokers, which included questions concerning these committees. Contact with relevant agencies usually also occurs on a less formal, routine basis.*

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***The Ministry of Community and Social Services will seek to continue and improve community-based linkages in the implementation of JOBLINK.***

***The program will continue to monitor the quality of brokers' community links within the limit of available resources.***

## **MANAGEMENT SYSTEMS AND PROCEDURES**

We concluded that satisfactory systems and procedures have been designed to deliver the program economically and efficiently and in accordance with guidelines. However, at the time of our audit, some of these intended systems and procedures were not fully implemented or working as intended, as the program is only in its second year. Consequently, we have some recommendations for improvement.

In addition, several possible "best practices" were noted during our visits to brokers that other brokers should consider.

Brokers' roles and responsibilities for delivering the program include all contacts with interested individuals and employers. Individuals applying to the program are assessed for eligibility, educational background and previous work experience. Individuals who are assessed as requiring skills upgrading to assist them in becoming job ready may be offered pre-employment training arranged for by the broker. Referrals for subsidized child care are also made where needed. Once deemed eligible, individuals are registered on a database for consideration for available jobs.

To attract employers, brokers market the program in their communities. Employers interested in hiring fewer than 25 participants are assessed for eligibility prior to registering their available positions. Matching of suitable individuals with employers may occur in many ways. Normally, a list of the best qualified individuals registered on the database is referred to the employer. Referrals to employers are made with the objective of filling 50% of positions with social assistance recipients. Eligible individuals and employers can also find their own matches.

For large employers hiring at least 25 individuals, the Ministry negotiates contracts, training plans, and training cost summaries with the employers directly rather than through a broker. All project monitoring and payments to large employers are also the Ministry's responsibility. However, brokers are used to refer individuals registered on their database to large employers. Payments to large employers have totalled \$17.1 million to March 31, 1994, or 8% of all training credits paid, resulting in 4,850 jobs filled.

## **MONITORING OF BROKERS' PERFORMANCE**

We noted several good management practices in place to assess broker performance and to share best practices among brokers. These practices have helped resolve earlier difficulties.

Brokers have been provided with comprehensive and easy to follow manuals for delivering the program in the intended manner. Most noteworthy, the manual communicates well the expectations for determining and verifying eligibility requirements and training plan requirements. Standardized contracts and forms, and sample training plans have been included as well. Requirements found in this manual were used extensively for our audit to assess brokers' compliance with guidelines.

The Ministry's program consultants are responsible for monitoring and supporting brokers. They regularly visit brokers to provide guidance, discuss significant issues that arise, inspect files for compliance to procedures, and evaluate brokers' performance against targets. Program consultants performed comprehensive reviews during the fall of 1993 of each broker's operations for compliance with guidelines and requirements. Using training sessions and focus groups, program consultants exchange information among brokers and promote best practices.

The Ministry has also developed software for brokers that provides them with: a database for tracking individuals, courses, employers and positions; a query tool for preliminary matching of individuals with employers' positions; reporting capabilities for operational statistics; and a simplified financial reporting system. Brokers report monthly to the Ministry using the software, and are required to include a narrative report of their activities each month, including their marketing efforts relating to both employers and individuals, community links developed, and any problems encountered.

## TRAINING PLANS

Once a registered individual is matched with an employer, the broker assists the employer in developing an appropriate training plan consistent with the position and the individual's needs. The employer can use the entire training credit for the individual or may use up to 50% of the training credit to train other existing employees. In either case, a training plan and estimated training cost summary must be reviewed and approved by the broker prior to contracting.

Contracts are signed between the broker and employer that detail the employer's commitment for training the individual. In addition, the training plan requires that both the employer and employee commit to the planned training.

During the first year, brokers generally had insufficient expertise in training matters and, consequently, program guidelines for developing appropriate training plans for participants were frequently not followed. In addition, pressures to meet job placement targets reduced the emphasis on compliance with program guidelines.

More recent plans we examined were closer to the specific expectations set out in program guidelines in the manual. In addition to the concerted effort by brokers and program staff to improve brokers' performance, many brokers had recently hired staff with human resources backgrounds to improve the training component. The importance of having the necessary human resources expertise was apparent from our sample of training plans developed for larger employers, where training plans closely followed the guidelines and were of very high quality primarily due to the expertise available to large corporations.

However, our review of recent training plans at brokers indicated that program guidelines could still be more closely followed:

- Although the employers make the ultimate choice of which training methods and trainers best meet their needs, the manual strongly encourages training by public institutions and community-based trainers. For classroom and on-the-job training, trainers must have a demonstrated background, education and/or experience in workplace training. At most brokers visited, training plans sampled included little or no third-party training, and failed to describe the names and qualifications of the in-house trainers.

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One broker we visited had recognized the importance of third-party training and kept statistics that indicated 90% of training plans that had recently been approved included third party training. Trainers' names and qualifications had been documented in the training plan in accordance with guidelines.

- The manual requires documented training objectives that are clear, concrete, achievable statements of either skills or behaviours to be learned. It requires that training plans include performance-based training objectives that describe the behaviour the participant will be capable of at the end of a learning experience, rather than the means that will be used to get there. From our sample of training plans, many did not meet these requirements.

At some brokers visited, the training plans had been reviewed and approved by a more senior individual. Other brokers had developed extensive checklists and an approval process for all training plans.

- In cases where a portion of the training credit was used to provide training to other existing employees, there was little or no detail as to how the funds were to be spent. This is contrary to manual requirements. For training plans administered by the Ministry for larger corporations this was also a concern. Considering that training credits to large employers can total several million dollars, and up to 50% of this can be used for existing employees, details of training should be agreed upon in advance.

## **RECOMMENDATIONS:**

**To help brokers meet Ministry expectations for training plans the Ministry should:**

- encourage brokers to use third-party training where it is appropriate and cost effective to do so;
- consult with brokers that have already developed extensive checklists for reviewing training plans and develop a common checklist for use by all brokers; and
- ensure that the details of training provided to other existing employees are appropriately documented in advance of authorizing the training credits, in accordance with program guidelines.

## **MINISTRY RESPONSE:**

*We appreciate the Provincial Auditor's comments concerning third-party training and agree that there are some positive aspects to it, including the possibility of a recognized certificate or diploma to assist in the transferability of skills. However, experience in other programs has shown that increased reliance on third-party training does not guarantee improved quality of training.*

*Current jobsOntario Training guidelines do not place requirements or restrictions on the amount of third-party training. In remote and rural areas, the scarcity and distance of third-party trainers would make this requirement expensive and impractical.*

*Brokers have been provided with comprehensive tools to assist them to develop quality competency-based training plans. Foremost among these is a training plan manual, issued in early 1993, of standard generic training plans and modules for a wide range of occupations, and information about training resources. A list of training plans prepared by brokers throughout the Province was also made available in early 1993 to encourage sharing of good plans. Your audit results indicate that these measures have helped to improve more recent training plans.*

*As part of our recent broker evaluation process, brokers have been assessed on their ability to prepare high quality training plans. Most brokers met our standards. We will continue to work with those which did not.*

*Current program guidelines with respect to eligible training costs, including third-party training, as well as monitoring procedures and eligible costs associated with "existing employees", will be reviewed by the end of August, 1994 with the view to further strengthen the quality of training and accountability.*

*Concerning training plans for existing employees, on larger contracts, where the majority of training for "existing employees" occurs, very often their training is the same as for jobsOntario Training participants and so the same training plan applies.*

## PRE-EMPLOYMENT TRAINING

Pre-employment training funds are available to brokers to provide registrants with basic skills upgrading to increase their potential for employment. Examples include English and French language training, academic upgrading, problem solving and life skills, computer skills, communication skills, driver education, and job search techniques. The average cost per participant is about \$800 but course costs vary significantly among brokers for each course category.

While the guidelines made available to brokers provide a solid foundation for brokers' economical and efficient use of pre-employment funds, our review of this area noted several possible improvements:

- Only one broker visited had developed a formal strategy for acquiring and using its pre-employment funds in the most cost-effective manner. This strategy included an assessment of the needs in their community and which trainers could best provide identified training requirements.
- Neither the brokers nor the Ministry had done an assessment of the success of registrants in subsequently obtaining employment. We understand that the Ministry has recently begun collecting and assessing the information necessary to measure the success of brokers' pre-employment training efforts.
- Brokers had purchased a wide variety of courses, in terms of duration and content, and consequently there was a wide variance among brokers in the cost of courses purchased within each course category. Costs ranged from a few hundred to a few thousand dollars. The effectiveness of enhanced courses versus shorter cheaper ones had not been determined.

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Once the success rate of individual courses has been determined, possible best practices, such as those we observed during our visits to brokers, need to be identified and shared with other brokers. For example:

- Most courses included only classroom studies. One broker required recent courses to include an on-the-job component at a local employer. The intent was to re-integrate long-term unemployed individuals into the workplace and access a trainers' placement services.
- Although the guidelines emphasize basic skills upgrading, one broker had arranged for a course for higher skilled registrants which focused on marketing its participants to targeted employers.

## **RECOMMENDATIONS:**

**To maximize the benefits and uses of pre-employment training funds the Ministry should require brokers to:**

- **develop a formal strategy that identifies their community's needs and the most appropriate courses and trainers for meeting those needs cost effectively;**
- **monitor the success of individual pre-employment training courses and trainers to identify those that produce the best result in terms of job placements. The results of these assessments should be forwarded to the Ministry for dissemination to other brokers; and**
- **select training courses and trainers competitively.**

## **MINISTRY RESPONSE:**

*In April and May of 1994 we completed an in-depth assessment of the brokers' success with the pre-employment component, examining placement rates, completion rates, the existence of overall plans, and the adequacy of purchasing processes.*

*The evaluation revealed that most brokers have a pre-employment training advisory committee, even though this is mandatory only for those brokers who are also training providers.*

*Nearly all brokers had undergone a needs assessment process to determine a plan for purchase of pre-employment training, although the plan was not always formal. Brokers were not resourced to do full strategic needs assessments. This is a function that will be co-ordinated by federal/provincial local boards to be established in the near future.*

*Further allocations to brokers will be made on their ability to meet newly established criteria, which take into account previous success, accountability and overall program goals.*

*Pre-employment training, in general, has been acquired competitively taking availability and accessibility into consideration.*

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## ELIGIBILITY

As an overall control on the eligibility of social assistance recipients, which represent approximately 45% of individuals employed through the program, management was in the process of comparing the information in their database with records from the Ministry of Community and Social Services. In addition to verifying eligibility for these individuals, we were advised that discrepancies regarding wages and employment would be communicated to the Ministry of Community and Social Services to ensure social assistance calculations were up to date. A monthly update and information-sharing process is planned by the two ministries.

The manual is very specific regarding brokers' responsibility for verifying eligibility of employees, employers, and the job being offered. For example, brokers staff are required to request that individuals provide documents confirming their status with respect to social assistance and unemployment insurance. The manual requires brokers to make a visual identification of such documents only, and suggests that copies of these documents should not be put on file to ensure privacy.

During our visits, we assessed whether the Ministry could confirm that brokers had verified eligibility for individuals, employers and jobs offered. For the most part, a signature or initial by the broker's staff who performed the individual's assessment had been recorded on file attesting that the individual's eligibility had been confirmed. For employers and jobs offered, there was usually no documentation to verify that eligibility had been confirmed. As a result, the extent to which staff complied with the manual's requirements could not be determined.

### RECOMMENDATION:

To provide evidence that employer, job and employee eligibility have been properly confirmed, the Ministry should require brokers to retain a list of all documents that were examined during the confirmation process.

### MINISTRY RESPONSE:

*We have recommended that brokers use a checklist to verify employer eligibility. The checklist was developed by one of the brokers, and shared with other brokers during the Spring 1993 training sessions. It was formally redistributed in the weekly broker package on June 1, 1994.*

*Brokers do not keep copies of social assistance documentation as this would contravene protection of privacy legislation. However, brokers have now been asked to list the documentation they have seen to verify receipt of social assistance. As well, where documentation of receipt of social assistance is not available, we already have a process in place requiring a written verification of receipt of social assistance from a welfare administrator. There is a current program requirement and process to have on file documentation of a registrant's unemployment insurance status from the federal government. Broker's non-compliance with these requirements are noted during monitoring.*

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## EMPLOYER ACCOUNTABILITY

Brokers are required to visit employers to ensure that they comply with the program requirements. The manual recommends that the first visit be done within three months of the placement. Thereafter, brokers can decide whether additional visits or phone calls to the employer or individual are necessary based on the reports received from the employer. Monitoring visits not only permit discussions with the employer and employee, but also allow for viewing any invoices and payroll records that verify training costs and employee wages, both of which are used for calculating the training credit amount.

Given the primary emphasis on job placement targets, most brokers visited were well behind on their required employer monitoring visits, and were trying to catch up. Where brokers had conducted employer visits, the results were usually not well documented. However, two brokers visited had a comprehensive employer monitoring checklist that itemized exactly what the inspection should entail. One broker even forwarded the inspection checklist to the employer before the visit to inform the employer of the expectations for the visit. These are examples of practices the Ministry might well consider examining and disseminating to other brokers.

### RECOMMENDATION:

To establish an adequate process for confirming employer compliance with the terms of funding, the Ministry should remind brokers to complete overdue employer monitoring visits as soon as possible.

### MINISTRY RESPONSE:

*We agree that monitoring of employer contracts is an important aspect of ensuring accountability.*

*In February, 1994 brokers were provided with detailed standard guidelines on when and how employer monitoring should be done.*

*Additional monitoring staff have been added to some brokers in early 1994 to cope with the volume of monitoring activity.*

*Brokers are reminded regularly to do timely monitoring visits. Program-designed software is equipped with a function that allows brokers to call up lists of employers due for monitoring visits at any point in time.*

*There are ongoing efforts to collect and disseminate to brokers best practices related to monitoring of employers.*

## FINANCIAL CONTROLS OVER BROKERS

Several good policies and procedures have been established for monitoring brokers' financial activities. For example, reporting of brokers' monthly financial and operational performance was consistent and timely. The Ministry's software significantly enhanced this reporting. In addition, the Ministry has financial analysts who monitor brokers' financial

reporting and assist Program Consultants to negotiate budgets with brokers. Financial Analysts also visit brokers to review their financial records and procedures.

However, given the early stage of the program, key controls were either still being implemented or required strengthening to ensure they operate as intended. The following table provides a summary of our observations on financial controls that the Ministry has established over brokers together with our recommendations to improve these controls.

Our Observations	Recommendations
<p><b>Payments to Brokers</b></p> <p>Although Ministry policy is to limit advances to brokers to allow them sufficient funds to operate for approximately two months, several brokers were provided advances that exceeded the two month requirement. Large cash balances ranging from \$2 million to \$32 million were held by some brokers at the end of fiscal 1992/93 and during the first half of fiscal 1993/94. It took several months for these brokers to fully utilize their cash balances. The Ministry charged interest at the rate of 3 % on the month-end balance of unspent funds but this did not sufficiently compensate for forgone interest revenues or increased debt costs to the Province.</p>	<p><b>The Ministry should review its procedures and broker reporting requirements to ensure that the timing of advances to brokers better approximates their actual cash flow requirements.</b></p>
<p><b>Ministry Response:</b></p> <p><i>During the first operational year, reporting mechanisms were being put into place and broker staff were being trained to ensure accurate and timely reporting of actual and projected expenditures.</i></p> <p><i>Reports on the previous month's activities are received by jobsOntario Training on the third week of the following month. It takes about a week for staff to review and analyse the report and requisition the payment, and a further 2-6 weeks for cheque processing. Payment is not usually received by the broker until 2 1/2 months after their reported month end.</i></p> <p><i>Part of our payment calculation takes into account the brokers' training credit contract commitments as well as a percentage estimate of the amount of training credits payable.</i></p> <p><i>The Ministry has reviewed the procedures and broker reporting requirements and has concluded that additional training with brokers is necessary to help them refine their cashflow forecasting and ensure that their monthly reports reflect more accurate forecasts. Training on cashflow forecasting was held May 30 and 31, 1994 for the Southwest District brokers. Similar sessions will be held with all brokers by the end of the summer.</i></p>	

Our Observations	Recommendations
<p><b>Annual Reporting And Audit Requirements</b></p> <p>Annual reports from brokers, including audited financial statements, have not been received on a timely basis. For example, many annual reports required from brokers by July 1993 had still not been received as of January 1994. In addition, the Ministry requires the broker's auditor to audit for compliance to the program guidelines and agreement. However, for some brokers visited, they had either not instructed their auditor to perform a compliance audit, or their auditor specifically refused to provide an opinion due to the unclear expectations and costs for this type of audit.</p>	<p>To ensure annual reporting and audit requirements are effective, the Ministry should remind delinquent brokers to submit annual reports, including audited financial statements, on a more timely basis. Also, the Ministry should clarify compliance audit expectations with brokers and their auditors to ensure they are reasonable and cost effective in relation to the Ministry's own monitoring procedures.</p>
<p><b>Ministry Response:</b></p> <p><i>Brokers who have not submitted their annual reports promptly are reminded to do so. This is followed up on an ongoing basis.</i></p> <p><i>We have reviewed the requirement for a compliance audit and have communicated our expectations to brokers. With the strengthening of our monitoring procedures, external auditors will no longer be required to perform compliance audits.</i></p>	

Our Observations	Recommendations
<p><b>Financial Monitoring Visits To Brokers and Sub-Brokers</b></p> <p>Financial analysts we interviewed required more time than they had anticipated to review and approve brokers' budgets and to monitor monthly reports. As a result, they had not made field visits to brokers at least once every six months as planned. Our review of documentation used for and prepared as a result of visits completed revealed that checklists were not used by analysts to help ensure complete and consistent reviews. As well, reports of the results of visits, if prepared, were of inconsistent quality.</p> <p>We were also advised that program consultants and financial analysts do not directly monitor sub-broker's activities, preferring to deal through the lead brokers. However, monitoring of sub-brokers by their lead broker for compliance with financial procedures and policies was also inconsistent and informal. The roles and responsibilities of lead brokers has not been made clear and some lead brokers have not assumed an active role for monitoring.</p>	<p><b>To strengthen financial monitoring of brokers and sub-brokers the Ministry should:</b></p> <ul style="list-style-type: none"> <li>• design, possibly with the help of Internal Audit, a review checklist to help ensure consistent monitoring procedures that complement assurances obtained from brokers' periodic and audited reports;</li> <li>• establish the frequency of visits to brokers on the basis of an assessment of the risk of control problems; and</li> <li>• clearly communicate to lead brokers their responsibility for monitoring sub-brokers.</li> </ul>
<p><b>Ministry Response:</b></p> <p><i>We initiated several meetings with the Ministry's auditors immediately following the start of the program for the purpose of sharing with us their monitoring practices. Monitoring forms and standards were developed accordingly. The monitoring done by financial analysts is framed by the operational guidelines and the principles of accountability.</i></p> <p><i>We are presently enhancing the format of our monitoring checklist and developing a more standardized reporting procedure. This will be completed by June 30, 1994.</i></p> <p><i>At the end of each monitoring visit, the financial analyst discusses results and findings with the broker. A written report is now prepared after the visit and is distributed accordingly.</i></p> <p><i>Regular monthly reporting and contacts with brokers and our scheduled monitoring bolster our expectations of brokers to comply with guidelines. In addition, this provides a broader perspective on the operational realities faced by the brokers. Whenever there is reason to believe that there may be increased risk control problems, additional financial monitoring visits are scheduled.</i></p> <p><i>In addition to formalized monitoring visits, there are numerous informal contacts with brokers. An important role of financial analysts is to assist brokers with their financial procedures.</i></p> <p><i>Although it is the responsibility of each lead broker to monitor its sub-brokers, we recognize that some lead brokers may have limited experience in this area. We provide training and technical assistance in sub-broker monitoring, when requested, in order to be assured that accountability standards do not suffer. We will continue to reiterate this responsibility with brokers during routine monitoring visits.</i></p>	

Our Observations	Recommendations
<p><b>Internal Controls At Brokers</b></p> <p>At some brokers visited, financial systems and controls over payments needed to improve. Potential improvements we noted include:</p> <ul style="list-style-type: none"> <li>• more timely reconciliation between the reported results to the Ministry, the broker's accounting records, and invoices and training credits paid;</li> <li>• documented authorization and better monitoring of persons who sign for payments;</li> <li>• better segregation of duties to limit staff access to accounting records;</li> <li>• use of original documents to authorize payments, rather than photocopies which increases the risk of duplicate or altered payments; and</li> <li>• better security and back-up procedures for the program's software and data.</li> </ul>	<p><b>To strengthen internal controls at brokers the Ministry should:</b></p> <ul style="list-style-type: none"> <li>• remind brokers of their responsibility for ensuring that good internal controls are in place; and</li> <li>• ask brokers' auditors to provide recommendations for improving internal controls as part of their audit.</li> </ul>
<p><b>Ministry Response:</b></p> <p><i>The process of guiding and assisting brokers is ongoing. We notify brokers every time we notice control or operational weaknesses; this usually occurs during monitoring visits. Appropriate corrective action is recommended as soon as possible.</i></p> <p><i>Brokers' auditors will be asked to provide recommendations for improving internal controls as part of their annual audit. This was communicated to all brokers on May 31, 1994.</i></p>	

Our Observations	Recommendations
<p><b>Administrative Expenses</b></p> <p>Administrative expenses paid to brokers as part of the transfer payment have totalled \$54.9 million to March 31, 1994. These expenses were approved by a budget committee after extensive negotiations with each individual broker, both before and after commencement of operations, to allow for the unique circumstances of each broker.</p> <p>Although the original submissions for the program estimated average broker administrative expenses over the three-year life of the program to be 12.9% of targeted training credits, approved expenses have averaged about 20%, and even more in relation to actual training credits paid to March 31, 1994. Comparisons to similar programs for determining the appropriate level of administrative expenses is difficult as this is one of the first programs to use a community-based approach to training and job placement.</p>	<p>Now that procedures and activity levels have largely been established, the Ministry should assess brokers' administrative costs in relation to program activity and outputs, taking into account any unique local circumstances. Reasons for differences in cost effectiveness among brokers should be examined to identify and share among brokers the methods employed by more cost-effective brokers.</p>
<p><b>Ministry Response:</b></p> <p><i>Brokers' administrative costs in relation to program activity and outputs have been assessed at least on an annual basis as part of the regular broker budget approval process. This review has taken into account any unique local circumstances which impact on the need for administrative resources.</i></p> <p><i>An assessment of broker administrative costs, such as that recommended by the Provincial Auditor, was carried out during April and May 1994. The results of this assessment are still being analysed and will be used as part of the third-year broker budget reviews currently underway. As well, results will be used in the ongoing process of broker evaluations and efforts to improve broker performance, including cost effectiveness.</i></p> <p><i>Broker workloads have proved to be much higher than anticipated especially in relation to participant intake, program marketing, and administrative responsibilities related to Economic Renewal activities.</i></p> <p><i>Additionally, the extension of the program's timeframes has necessitated a recalculation of administrative costs and ratios.</i></p>	

Our Observations	Recommendations
<p><b>Planning And Control Of Computers</b></p> <p>We were satisfied that competitive purchasing practices were used by the Ministry for acquiring computer hardware and for selecting the software developer to help administer the program. Similarly, brokers we visited used competitive procedures to locally purchase computers. However, controls over the number and specification of computers purchased by brokers were not satisfactory.</p> <ul style="list-style-type: none"> <li>Local purchases of computers varied between brokers by manufacturer type and model. This resulted in several brokers experiencing set-up and on-going problems that were unique to their hardware. Some brokers were still experiencing computer operating problems after one year of operations. All costs and staff time incurred to deal with these problems had to be borne by the Ministry.</li> <li>At brokers visited, computers were purchased with the latest technologies and capacities that exceeded the hardware specifications provided by the Ministry. Computers purchased were often the best available, costing over \$1,000 more than those with the recommended specifications.</li> <li>The Ministry was unable to provide a current list of the number of computers that were authorized for and purchased by brokers.</li> </ul> <p>By allowing brokers to purchase locally, there was a lost opportunity for the Ministry to reduce costs and exercise better control. One large tender might have reduced both costs and implementation problems. Given that all costs were borne by the Ministry and that all computers will be gifted to brokers at the end of the program, there is a need to ensure costs incurred by brokers for computers purchased did not exceed requirements.</p>	<p>The Ministry should prepare an inventory of computer workstations and related equipment paid for by the Ministry and identify any brokers that may have purchased computers that exceeded requirements. Brokers should be required to justify purchases that exceed the equipment specified by the Ministry. Where specifications or requirements have been exceeded and a useful life beyond the end of the program is expected, alternative uses which benefit taxpayers should be examined.</p>
<p><b>Ministry Response:</b></p> <p><i>Specifications provided to brokers were for minimum requirements needed to run the jobsOntario Training software. In many cases, when brokers purchased their computers, the 286 model which had been recommended was no longer available from suppliers.</i></p> <p><i>Computer purchases with the Ministry funds were approved as part of the overall budgeting process and were deemed to be within acceptable limits given numbers of staff approved and the broker delivery organization.</i></p>	

**Ministry Response (Continued):**

*While there may have been some cost savings realized by purchasing computers centrally, local purchases were determined to be preferable in order to ensure local support for installation and warranty purposes, as well as benefiting the local economy. In addition, centrally co-ordinated purchasing for all brokers was deemed not to be feasible given time and resource constraints during the start-up phase of the program. It is the Ministry's view that there are benefits to be realized through both central and decentralized purchasing, however, we opted for the choice which supported local purchasing through local suppliers.*

*The Ministry is preparing an inventory of computer workstations and related equipment as part of the year three budget review process. This process will be complete by the end of July 1994. For those brokers for which this review has been completed (9 of 61), there has been no instance in which either the number of computers or the cost of the computers has been excessive.*

# Water and Sewage Treatment Facilities

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Under the *Ontario Water Resources Act* and the *Environmental Protection Act*, the Ministry of Environment and Energy is charged with ensuring that drinking water and sewage effluent processed by treatment plants meet established health and environmental guidelines.

There are 490 water treatment and 415 sewage treatment plants in Ontario which are designed to protect public health and the environment. These plants treat about 4.55 million cubic metres (1 billion gallons) of, respectively, drinking water and sewage each day. Prior to November 15, 1993, the Ministry of Environment and Energy operated 77 water and 153 sewage treatment plants owned by the provincial government and 36 water and 80 sewage treatment plants owned by local municipalities. Operating costs for these 346 treatment plants were recovered from municipalities in the form of utility service charges. Ontario municipalities own and operate the remaining 377 water and 182 sewage treatment plants.

Effective November 15, 1993, responsibility for operating all plants formerly operated by the Ministry was transferred to a newly created crown agency, the Ontario Clean Water Agency. However, it is the Ministry's responsibility to ensure that drinking water and sewage effluent from all plants meet Ministry guidelines regardless of plant ownership.

The replacement cost of Ontario's water and sewage infrastructure is estimated by the Ministry at \$50 billion, including networks of underground water mains and sewage collection pipes. Total expenditures incurred by the provincial government for water and sewage treatment facilities were estimated to be \$440 million in the 1994 fiscal year. Of this amount, \$117 million was for plant operations and was recoverable from municipalities as utility service charges; the balance of \$323 million was mainly for capital funding of water and sewage projects. All water and sewage treatment plants have received funding for capital projects from the provincial government to varying extents.

While we audited activities which took place before the creation of the Agency, recommendations from our audit which would require implementation by the Agency were discussed with Agency officials.

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## OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry had adequate procedures in place to ensure that:

- water and sewage were treated in accordance with legislation and established guidelines and that treatment plants were properly monitored and inspected; and
- provincial funding for water and sewage projects was properly approved and spent for its intended purposes.

Our audit was conducted at the Ministry's head office and three of its six regional offices. The audit included discussions with Ministry officials, a review of Ministry files for 50 treatment plants, analyses of pertinent data and statistics from treatment plants, a review of relevant work by the Ministry's Management Audit Branch, and visits to several water and sewage treatment plants to obtain an understanding of their operations.

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## AUDIT OBSERVATIONS

### MONITORING OF DRINKING WATER AND SEWAGE EFFLUENT

Water treatment facilities remove impurities from drinking water. Guidelines for drinking water are contained in a Ministry publication called *Ontario Drinking Water Objectives*. The publication, which was most recently updated in 1992, describes acceptable limits for disease-causing bacteria, toxic chemicals and radioactive substances above which there are known or suspected adverse health effects. In addition, the publication establishes guidelines for aesthetic requirements such as taste and colour.

Sewage treatment facilities process sewage to ensure that effluents discharged into receiving waters do not exceed pollution guidelines established by the Ministry. These guidelines stipulate maximum limits on the levels of organic wastes, suspended solids and phosphorus in effluent discharged into the receiving waters. In some cases, facilities must meet more stringent requirements set out in a Certificate of Approval. Under the *Ontario Water Resources Act*, a Certificate of Approval must be issued prior to the construction of or addition to a water or sewage treatment facility.

The Ministry relies on a number of mechanisms to ensure that water and sewage are treated in accordance with health and environmental guidelines. Both water and sewage treatment plants regularly measure the quantity and quality of their intake and outflow. Based on data reported by the plants, the Ministry evaluates plant compliance with Ministry guidelines. The Ministry also has a program to inspect all treatment plants in Ontario every two years. In addition, the Ministry has established a Drinking Water Surveillance Program to monitor the quality of drinking water at selected water treatment plants.

When problems are identified by the Ministry, they are brought to the attention of the treatment plants for corrective actions. If corrective actions are not taken, the Ministry can issue control orders compelling treatment plants to comply with Ministry guidelines. As a

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last resort, the Ministry can lay charges under the *Environmental Protection Act* and/or the *Ontario Water Resources Act*.

## **QUALITY OF DRINKING WATER**

### **DRINKING WATER SURVEILLANCE PROGRAM**

The Drinking Water Surveillance Program for Ontario was established to monitor and provide reliable current information on drinking water quality. The program was started in 1986 and is intended to eventually include all water treatment plants in Ontario.

The program tests water samples for the presence and levels of 180 substances including bacteria, inorganic chemicals, organic chemicals such as PCB and dioxin, and radioactive substances. Sampling frequency ranges from monthly for new plants to semi-annually for established plants with underground water sources. The Ministry publishes the results of this program annually.

As of December 31, 1993, 120 of the 490 (23%) water treatment plants were covered by the program. However, it should be noted that these 120 plants serve about seven million people or 70% of Ontario's population. The Ministry plans to extend this program to about 15 new plants every year. In general, the results have indicated that water treatment plants monitored to date by the program are producing water of acceptable quality.

### **INSPECTION PROGRAM**

Water treatment plants collect samples of their intake and outflow for laboratory tests to assess the quality of their treatment processes. The Ministry inspects all treatment plants every two years to verify compliance with Ministry guidelines.

A 1992 summary report by the Ministry on the inspection of 490 water treatment plants indicated that over 120 of them had significant compliance problems, including:

- not performing sufficient sample testing for bacteria and toxic chemicals;
- not conforming with minimum guidelines for treating bacteria; and
- not meeting Ministry guidelines on treated water quality.

We observed that the plants with significant compliance problems were mainly smaller plants serving about 10% of Ontario's population. Furthermore, over 90% of these plants were not yet covered by the Drinking Water Surveillance Program.

Our review of 23 current water treatment inspection files indicated similar problems. We noted that problems which were not followed up at the time of our audit had been outstanding for approximately 17 months on average.

We are concerned about the lack of timely follow-up action on problems identified by inspection staff and the inadequate monitoring of plants not covered by the Drinking Water Surveillance Program.

## RECOMMENDATIONS:

Instead of relying on a two-year inspection cycle of all water treatment plants, the Ministry should give priority to follow-up on those plants identified as having significant compliance problems.

Plants having significant compliance problems should be brought into the Drinking Water Surveillance Program as quickly as is practical.

## MINISTRY RESPONSE:

*The Ministry has created a new, proactive inspections unit in each district that will be responsible for plant inspections along with other facilities. Inspection frequency will be based on risk assessment factors rather than routine cycles so that plants with historic problems will be inspected more frequently. Improved reporting and abatement follow-up is an important element of this new approach to inspections.*

*The correction of problems at water treatment plants often requires capital works etc. which may take two or more years to complete. During this time, however, abatement work is ongoing and staff do not wait for the next scheduled inspection to follow up.*

*Priority of additions to the Drinking Water Surveillance Program is now being given to plants presently not meeting the sampling guidelines.*

*Abatement staff will continue to work with plants to obtain conformance with provincial guidelines and policy.*

## QUALITY OF SEWAGE EFFLUENT

Improper treatment of sewage effluents may result in the contamination of drinking water supplies, the accumulation of toxic substances in fish and other aquatic organisms, and the closure of beaches for health and safety reasons.

Like water treatment plants, all sewage treatment plants also conduct periodic sampling to measure the quality of their effluent and to verify compliance with Ministry guidelines. Of the 27 sewage treatment plants selected for our review, 13 did not perform sampling in accordance with Ministry guidelines.

The Ministry publishes annual reports on discharges from treatment plants in Ontario based on compliance data submitted by sewage treatment plants. At the time of our audit, due to delays in the compiling of information, the most recent report issued was for 1991. The Ministry has since issued reports for 1992 and 1993. The 1991 report for 395 plants which discharged treated effluent to surface water indicated:

- eight plants did not provide sufficient data for assessment; and
- 91 of the remaining 387 plants (24%) that submitted data did not meet the Ministry's health and environmental guidelines. These plants treat about 2.7 million cubic metres (600 million gallons) of sewage per day.

Treatment plants which were out of compliance were requested to identify remedial actions. However, about half of the 91 plants had been out of compliance between three and

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five years. In addition, in our review of the Ministry's inspection program, we noted that problems identified by inspection staff which had not been followed up at the time of our audit had been outstanding for over one year on average. No control orders had been issued.

#### **RECOMMENDATION:**

**The Ministry should strengthen its enforcement efforts, including the issuance of control orders, to ensure that treatment plants with compliance problems take timely corrective actions.**

#### **MINISTRY RESPONSE:**

*The correction of problems at sewage treatment plants often requires significant capital improvements. Since these types of works often take several years to move from planning through construction to operation, there is a similar delay before compliance is achieved.*

*The Ministry (Ontario Clean Water Agency) has initiated the Municipal Assistance Program which is providing moneys to municipalities to assist in the upgrading of sewage and water treatment works.*

*The Ministry is developing a Sewage Treatment Plant Regulation under the Municipal MISA (Municipal-Industrial Strategy for Abatement) Program which will replace many guidelines with legally enforceable requirements. The mandate of the Municipal-Industrial Strategy for Abatement Program is to prevent toxic substances from municipal and industrial effluents from entering Ontario's surface water by formulating limit regulations to be enacted under the Environmental Protection Act.*

*Abatement staff will continue to work with plants to obtain conformance with provincial guidelines and policy.*

## **DISCHARGE OF UNTREATED SEWAGE**

Ministry policy does not allow the discharge of untreated or partially treated sewage into receiving water bodies (a practice known as "bypassing") except in emergency conditions. The policy states that emergency bypasses are permitted "only to provide protection from basement flooding, to prevent damage to equipment at treatment works or pumping facilities or to prevent treatment process washout."

Bypasses occur when treatment plants do not have the capacity to treat a large volume of sewage. They may be caused by significant inflow from sump pumps, roof leaders or the infiltration of ground water from a storm or spring thaw into leaky pipes in the sewer collection system. They can also be caused by equipment breakdown at treatment plants.

All sewage treatment plants are required to report the volume and duration of bypasses to the Ministry and to document reasons for bypassing. In our review of 27 sewage treatment plant files we noted that:

- three plants did not have equipment to monitor bypasses;

- two other plants which had bypasses at their pumping stations did not measure or report the bypasses to the Ministry, even though the quantity and quality of the bypasses were measurable. Without this information, useful assessments of the environmental impact of bypasses are unlikely; and
- two plants did not report their bypass data for a period of four to six months. In one of the plants, our follow-up review of more current data showed that, for the first nine months in 1993, the plant had bypassed approximately 40 times with volumes totalling 2.2 million cubic metres (480 million gallons), with as much as 270 thousand cubic metres (60 million gallons) bypassed during one single event. In addition, we noted that another treatment plant in that municipality had even more bypasses. Ministry staff expressed concern that "bypassing is now the main operating strategy at the plants" in that municipality "to meet effluent requirements, save operating costs and to postpone capital projects." However, to date little action has been taken by the Ministry to address these concerns.

### **RECOMMENDATIONS:**

**The Ministry should ensure that sewage treatment plants report the quantity and quality of all bypasses. It should also assess the seriousness of bypassing problems at individual plants and work with plants that have serious bypassing problems to determine the most appropriate remedial action.**

### **MINISTRY RESPONSE:**

***We agree with the Auditor and have been working towards this end.***

***Bypassing of untreated or partially treated sewage occurs to prevent sewage treatment plants from being hydraulically overloaded, which could result in both short- and long-term environmental impacts.***

***The Municipal MISA (Municipal Industrial Strategy for Abatement) Sewage Treatment Plant Joint Technical Committee will address the issue of plant bypasses as part of creating a Sewage Treatment Plant Regulation under the Municipal MISA Program.***

***The Ministry will request that sewage treatment plant operators sample and report on the quality of bypasses occurring at the plants.***

***Staff will continue to work with plants with serious bypass problems to have them corrected.***

## **EXTRANEOUS FLOWS ENTERING THE SEWAGE SYSTEM**

Sewer collection systems undergo structural deterioration over time. This can allow ground water to infiltrate leaky pipes and result in extraneous flows into sewage treatment facilities. Extraneous flows also enter the sewer facilities as inflows from connections of roof leaders, sump pumps and foundation drains. Most municipalities have municipal bylaws prohibiting such illegal connections. Other inflows result from the connection of storm sewers to the sewage system.

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The treatment of water from extraneous flows increases operating costs and reduces the capacity of sewage treatment plants. The reduction of treatment plant capacity may in turn cause bypassing. In some cases, the Ministry may impose a freeze on community development until more treatment capacity is available.

In our review of files on 27 sewage treatment plants, we found that only 10 files contained sufficient information to assess extraneous flows. Of those ten plants, at least seven experienced one or more serious problems as a result of extraneous flows:

- five had significant bypassing because of extraneous flows; and
- the Ministry had imposed a freeze on development in three communities as a result of extraneous flows.

In one of the above cases, the municipality subsequently implemented a rehabilitation program which was successful in reducing the municipality's sewage flows by 45% over a three-year period.

#### **RECOMMENDATION:**

**The Ministry should work with municipalities and the Ontario Clean Water Agency to determine the most appropriate remedial action for sewage treatment collection systems and plants that are experiencing serious problems with extraneous flows. Such actions should include rehabilitation and enforcement of municipal bylaws.**

#### **MINISTRY RESPONSE:**

*The Auditor is correct in that extraneous flows do create problems at sewage treatment plants. To partially resolve these issues, the Municipal Assistance Program (MAP) requires that municipalities address these types of problems before they may obtain funding.*

*The Sewer Use Regulation (under development as part of the Municipal-Industrial Strategy for Abatement Program) will provide the Ministry with recourse to municipalities that do not enforce their sewer use by-laws.*

*The Ministry, in conjunction with the Ontario Clean Water Agency, will continue to use Municipal Assistance Program and the freezing of development to encourage municipalities to reduce extraneous flows.*

## **SLUDGE MANAGEMENT**

The sewage treatment process removes pollutants from raw sewage and discharges relatively clean water. The removed material is called sludge and must be taken out of the treatment system on a regular basis. The sludge can be incinerated or, if it meets Ministry guidelines, used on agricultural land as fertilizer. Failure to dispose of sludge properly results in its accumulation in treatment tanks. Such accumulation frequently leads to poor effluent quality when the sludge solids are washed out with final effluent.

In our review of files on 27 sewage treatment plants, we noted problems with sludge management at 10 plants. For example:

- five had problems with their sludge treatment equipment or did not have adequate sludge storage space and, therefore, left their sludge in the treatment tanks. This resulted in frequent washout of solids with the final effluent; and
- At four plants, the operators did not apply the necessary process monitoring and control. Ministry inspectors attributed this weakness to inadequate staff training and a lack of proper monitoring devices. In one plant, failure to remove sludge caused the plant to be out of compliance for seven months.

According to the Ministry, one effective method for assessing whether sludge is properly managed is to perform a sludge accountability analysis in which the actual and projected sludge production are compared. However, such analysis was rarely done by plant operators or Ministry inspectors. In some plants where such analysis was performed, the results have identified problems with sludge management, including excessive sludge being left in the treatment system, faulty instrumentation and inaccurate plant records.

### RECOMMENDATION:

**The Ministry should identify sewage treatment plants that have serious problems with sludge management. Where problems are identified, timely corrective actions, such as sludge storage expansion, better monitoring devices and improved operator training, should be taken.**

### MINISTRY RESPONSE:

*The Ministry will continue to work with plants to improve their sludge management capabilities.*

*The Ministry will ensure the use of sludge inventory reconciliation as part of the regular plant inspection program and during plant expansion planning.*

*Improved record keeping will be addressed as part of the provincial requirement for certification of plants and plant staff.*

*The Ontario Clean Water Agency agrees with the recommendation, and is currently finalizing a procedural manual which will assist the superintendents with managing process organic waste. As part of the annual inspection, the issue of sludge management will be addressed and where inadequate storage facilities exist, corrective actions will be undertaken.*

## PREVENTIVE MAINTENANCE

To ensure that treatment facilities perform as intended, their equipment must be properly maintained and repaired. Failure to do so may result in poor quality outputs, service interruptions and shortened life spans for the facilities.

Thirteen of the fifty water and sewage treatment plants whose files we reviewed did not have regular preventive maintenance programs in place. Further, the Ministry's inspection program indicated that between 1990 and 1992, 66% of the water treatment plants and 52% of the sewage treatment plants either did not have their flow meters regularly calibrated or

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did not keep calibration records. Accurate flow information is necessary for making informed decisions affecting process control, bypassing and capital expansion.

#### **RECOMMENDATION:**

**The Ministry should work with municipalities and the Ontario Clean Water Agency to implement regular preventive maintenance programs for all water and sewage treatment plants.**

#### **MINISTRY RESPONSE:**

*We agree with the Auditor.*

*Inspectors will continue to encourage the regular calibration of flow devices and use of preventive maintenance programs.*

*The use of plant optimization to highlight maintenance problems will be examined by a subcommittee of the Sewage Treatment Plant Joint Technical Committee as part of the Municipal MISA Program.*

*The Ontario Clean Water Agency is supportive of a preventive maintenance program for each of the facilities it operates. During each plant's annual review, if the existing preventive maintenance is not in use, this will be corrected. It is important both from an operational perspective and for allocating development capacity for the municipalities that accurate flow measurement is available. Each area office is currently addressing this issue.*

## **FUNDING FOR WATER AND SEWAGE PROJECTS**

Prior to June 1993, the Ministry administered a Direct Grant Program to provide funding for the design and construction of water and sewage facilities. Under the Program, municipally-owned projects were eligible for up to a maximum of 85% of the cost of capital projects. With additional assistance from the Ministry of Northern Development and Mines, some northern communities could obtain provincial funding for 92.5% of total capital costs. The provincial government paid the costs of projects for provincially-owned facilities, and recovered a portion from the municipalities over 40 years. As of December 31, 1993, the Ministry was providing grants for about 700 municipal projects and 80 provincial projects with total estimated costs of \$1.7 billion and \$850 million respectively.

In 1986 the Ministry introduced another grant program, the Lifelines Program, to help municipalities rehabilitate their water distribution and sewage collection systems. Lifelines subsidized one-half of the cost of water and sewage needs studies and one-third the construction costs of approved municipal rehabilitation projects. As of December 31, 1993, approximately \$59 million had been paid out of this program since its inception.

In June 1993, the provincial government introduced a new grant program called the Municipal Assistance Program and phased out the Direct Grant and Lifelines Programs. The purpose of the new program is to promote regular maintenance and water conservation programs as well as the efficient use of existing water and sewage services. To be eligible

for provincial funding, proposed capital projects must meet conditions under four categories: environment, water efficiency and system optimization, economic renewal, and regional development. The newly formed Ontario Clean Water Agency is responsible for administering this grant program.

## APPROVAL OF PROVINCIAL AND MUNICIPAL PROJECTS

To receive assistance for a municipal project under the Direct Grant Program, municipalities had to demonstrate to the Ministry that they had significant health, environmental or growth problems related to water or sewage services. The Ministry established a project priority evaluation committee to score and rank the applications. We concluded that satisfactory procedures were in place for approving municipal applications for capital grants.

The Ministry administered provincial projects separately from municipal projects. The Ministry or the municipality identified the need for expansion or upgrading of a plant. However, there was no formal ranking process to determine which projects should have the highest priority.

We are pleased to note that under the recently introduced Municipal Assistance Program, the provincial government intends to evaluate and formally rank both provincial and municipal projects against the same funding criteria.

## PROJECTS TO EXPAND TREATMENT CAPACITY

Water utilities must have sufficient capacity to satisfy their maximum day demand, which usually occurs during the summer months when domestic water use peaks. Sewage collection and treatment facility capacity must be sufficient to handle the average daily flows. In growing communities, the municipalities must also plan to ensure that they will have adequate capacity to satisfy their projected future demands.

Water consumption has a direct impact on the amount of sewage treatment that will be required. In cases where conservation measures lower water consumption, the volume of sewage requiring treatment will be lowered as well.

We examined two water and ten sewage expansion projects that the Ministry had agreed to subsidize with total capital costs exceeding \$150 million.

## WATER PROJECTS

Instead of expanding treatment capacity, for the two municipal projects we examined, the municipalities decided to lower peak water demand by repairing damaged water mains, installing water meters and charging customers for water based on the volume used.

By investing \$6.3 million in water conservation measures:

- peak water demand declined by approximately 50% at the plants in both communities;
- the need for \$50 million in expansion capital projects was deferred for up to 20 years; and
- one of the above municipalities was able to persuade the Ministry to lift a development freeze as the result of its conservation efforts.

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## SEWAGE PROJECTS

We noted that alternatives to new construction and expansion such as water conservation, system optimization measures and the feasibility of rehabilitating existing facilities had not been adequately pursued prior to funding for any of the 10 sewage projects we examined. Specifically:

- Ministry records reported that eight of the ten sewage plant expansion projects were experiencing substantial extraneous flows in their collection systems. The Ministry did not have information on the volume of extraneous flows for the remaining two municipalities; and
- five municipalities received grants under the Lifelines Program to study the conditions of their sewage collection systems. However, none had completed the rehabilitation work that was recommended in the study reports. In this regard, many of these municipalities were eligible for larger capital grants under the Direct Grant Program than for rehabilitating their infrastructure under the Lifelines Program. Therefore, there was little incentive for municipalities to carry out rehabilitation projects.

Our review indicated that, if water conservation measures had been taken, the need for some of the sewage expansion projects referred to above could have been eliminated or deferred for a long time. For example, the municipality which was able to defer its water expansion project and get its development freeze lifted through water conservation was also able to reduce its sewage treatment flows by 30%.

The new Municipal Assistance Program requires municipalities to review possible water conservation and system optimization measures as alternatives to their proposed capital projects in order to be eligible for funding. However, our discussion with Ontario Clean Water Agency officials indicated that the requirement for review could be interpreted broadly, particularly where plants were at capacity. Rather than holding up an expansion project where a plant was close to capacity, approval would most likely be given for the expansion.

According to Agency officials, there is a need to give priority to water conservation and system optimization projects where they are demonstrated to be cost effective. In a recent pilot project, agency staff worked with a municipality faced with the prospect of expanding a sewage treatment plant to review the merits of undertaking a water conservation program. The review showed that the water conservation option could defer the requirement for expansion and save the municipality up to \$27 million. According to the review, the water conservation option would produce, over a 15-year period, about 2,400 person-years of work, 800 more than would be created by expanding the plant as originally proposed.

## RECOMMENDATION:

**The provincial government should tighten the Municipal Assistance Program guidelines to ensure that municipalities not only review water conservation and system optimization measures, but also implement any applicable measures before expansion projects can be approved for provincial funding.**

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### **MINISTRY RESPONSE:**

*The Ontario Clean Water Agency's mandate clearly signals its intention of promoting the wise use of provincial water supply.*

*Accordingly, the Ministry has undertaken a pilot project to review the merits of undertaking water conservation programs before expanding an existing sewage treatment plant.*

*It is expected that the pilot results can be used to improve funding formula criteria to promote water conservation over the next two years of program funding.*

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### **PROJECT MANAGEMENT**

The Ministry managed all provincial capital projects before the establishment of the Ontario Clean Water Agency. In addition, it also managed such projects on behalf of smaller municipalities which lacked project management expertise. Project management responsibilities were subsequently transferred to the Ontario Clean Water Agency after November 15, 1993. Larger municipalities are responsible for managing their own capital projects, including control of project costs.

### **PROJECT COSTS**

We reviewed the financial controls over project expenditures and concluded that provincial funding for water and sewage projects was spent for its intended purposes. However, in reviewing a sample of 25 recently completed projects we found that:

- with one exception, all of the projects exceeded the amount initially approved by the Ministry; and
- the total cost for all projects increased from \$145 to \$225 million, or by 55%.

Because the Ministry funded a percentage of each of these projects and did not impose an upper grant limit on them, the amount of the total provincial grant also increased. The main cause of the increase was the Ministry's agreement to fund construction projects before their complete scope and design had been finalized.

### **RECOMMENDATION:**

**The Ontario Clean Water Agency should incorporate in its administrative guidelines a stipulation that no project be approved until its scope and design, together with an accurate cost estimate, have been finalized. Imposition of an upper limit for provincial commitment should also be considered to reduce provincial exposure to unexpected cost increases.**

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**MINISTRY RESPONSE:**

*The Ontario Clean Water Agency is, for this issue, an agent for the provincial government and cannot alter the administrative procedures on its own. There is a difficulty in having municipalities pay the cost for a detailed draft design prior to knowing whether they will receive provincial assistance. This is particularly true for the smaller municipalities. However, Ontario Clean Water Agency agrees with the intent of the recommendation and is evaluating alternative procedures in an attempt to control the total capital cost of a particular project.*

**CONTRACTS FOR CONSTRUCTION AND CONSULTING ENGINEERS**

At the time of our audit, the Ministry was managing 290 capital projects serving over 200 communities. We tested a sample of construction contracts under the Ministry's project management and observed that construction contracts were tendered and awarded to the lowest bidders.

However, for the engagement of consulting engineers, the Ministry used a rotation method by selecting from a roster of 82 qualified firms. Our review of contracts for consulting engineers indicated that proper rotation was not followed and that, in practice, contracts for consulting engineers were awarded to only a limited number of firms. Specifically, over the last five years, the Ministry awarded over 100 of 250 (40%) of consulting engineer contracts to four firms. Contracts with these four firms represented over \$45 million of a total contract value of \$65 million (70%) to all firms.

**RECOMMENDATIONS:**

**The Ontario Clean Water Agency should ensure that proper rotation for awarding contracts among consulting engineering firms is followed.**

**For larger projects, requests for proposals should be used so that large contracts for consulting engineers are acquired competitively.**

**MINISTRY RESPONSE:**

*The Ontario Clean Water Agency is currently reviewing how contracts are being let and considering a more streamlined but competitive process. It must be borne in mind that many consulting firms cannot provide a full range of services that would be required for larger projects. It is anticipated that more consortiums will be arranged in the future to address, in part, this problem.*

# Community Health Programs

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3.07

The Community Health Branch of the Ministry of Health is primarily responsible for the administration of the Community Health Centre (CHC) program, the Health Service Organization (HSO) program and the Comprehensive Health Organization (CHO) program. The Branch has a staff of 25 and an operating budget of \$1.9 million. For the 1993/94 fiscal year, the Ministry provided approximately \$155 million to 126 organizations delivering services under the CHC and HSO programs. During that year \$548,000 was provided to community groups to conduct studies exploring the feasibility of developing CHOs in their community.

## OBJECTIVE AND SCOPE

Our audit objective was to assess whether the HSO and CHC programs were managed with due regard to economy and efficiency and whether the effectiveness of these programs was measured and reported.

The CHO program is still under development. We reviewed its progress to date.

The scope of our audit included an examination of the management practices and operational controls in the Community Health Branch.

## AUDIT OBSERVATIONS

### COMMUNITY HEALTH CENTRES

The CHC program was established in 1972 under the *Ministry of Health Act*. CHCs provide various combinations of primary health care as well as other health, educational and social services to designated groups within a given area. They are tailored to the needs of groups within the community who can benefit from enhanced access to health care, for example, immigrants, the elderly or those with low incomes. The objectives of the program are:

- to improve access to appropriate health services;
- to strengthen the roles and responsibilities of the individual and the community in health and health care delivery;

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- to develop co-ordinated primary health services that make the most appropriate and efficient use of health care providers and resources; and
  - to promote health and prevent illness to enhance the health status of the individuals and communities served.

CHCs are not-for-profit organizations under the direction of community-based boards. They are funded by the Ministry on the basis of operating and capital budget submissions. Operating funds provided to the 49 CHCs by the Ministry for 1993/94 totalled \$64 million (\$56 million for 1992/93). Capital funds provided by the Ministry for 1993/94 totalled \$7.2 million (\$7.3 million for 1992/93).

The Ministry is considering expansion of the program to 100 CHCs by 1997.

## MEASUREMENT AND REPORTING OF PROGRAM EFFECTIVENESS

Procedures were not in place to measure and report on program effectiveness.

The Community Health Branch lacks a computer system capable of collecting data in order to monitor the achievements of and services provided by CHCs. Also, while budget submissions are carefully reviewed before approvals are provided, funding agreements with the CHCs do not indicate the specific results or performance targets which the Ministry expects CHCs to accomplish with their funding allocations.

Information from ongoing monitoring of CHC activities and from reports about the achievement of performance targets could provide management with information on program trends and highlight deficiencies needing corrective action. Such monitoring would facilitate the development of a program evaluation capability by providing the database needed for successful evaluation.

In January 1992, the CHC Program Strategic Planning and Evaluation Project Steering Committee was created to co-ordinate strategic planning for the CHC program. The committee was composed of representatives from the Ministry of Health, the Association of Ontario Health Centres, the Premier's Health Council and District Health Councils.

As part of this process, the Committee recognized the need to evaluate the CHC program to determine the extent to which objectives were being met. An Evaluation Project Group was established to determine if the program could be evaluated and, if so, to identify specific directions for an ongoing evaluation activity. An Evaluability Assessment Study was carried out by a consulting firm.

In October 1992, the final report of the study was submitted to the Evaluation Project Group. The report indicated that the program could be evaluated and contained 16 recommendations along with suggested completion dates. These included:

- the development of a two-year evaluation plan in 1993 specifying the tasks to be undertaken;
- the establishment of quality assurance standards by 1994; and
- the identification of long- and short-term outcome indicators by 1997 to assess program effectiveness.

The recommendations were incorporated into the *Strategic Directions for 1993/94 to 1996/97*. The next step was the development of a detailed work plan by the Branch to indicate how these recommendations will be operationalized.

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At the time of our audit, a detailed work plan had not been developed but an Evaluation Committee had been established to prepare the two-year evaluation plan. The committee was expected to meet in April 1994.

Information on the effectiveness of the CHC program is vital to the Ministry in making informed decisions about whether to expand the program to 100 CHCs by 1997. Due to the lack of a management information system to monitor achievements and services provided, the lack of ongoing monitoring of expected performance targets in relation to funding provided and the slow start to the program evaluation process, it will be some time before effectiveness information will be available.

## **RECOMMENDATION:**

**Before any significant expansion of the CHC program occurs, the Ministry should obtain information on the program's current effectiveness.**

## **MINISTRY RESPONSE:**

*The Ministry agrees that before any significant expansion takes place an evaluation will take place.*

*The CHC Program Evaluation Workgroup has met to establish a two-year work plan. Work will begin over the summer, and within one year the group intends to have developed indicators to be used in evaluation on an on-going basis.*

*It is well understood in the program evaluation field that this type of health program effectiveness research is complex, long-term and expensive. In fact, many of the questions we have are often virtually unanswerable due to limitations of data and the complexities of the real world, as opposed to a laboratory.*

*The evaluation approach which the Ministry is supporting is first looking at process (or formative) evaluation questions. These are the questions that will help the CHCs to focus on improving their programs and services.*

*It is also important to look at the program from a policy analysis perspective when making this kind of statement about the future of a program. The Government of Ontario has accepted a set of health goals for the province. A recent study, entitled A Picture of Health: Community Health Centres in Ontario, illustrated how the activities of CHCs are in line with the health goals for Ontario. In addition, a report on the evaluability of the program indicated that there was logic to the program, that its activities fit with its goals and objectives. In addition, it stated that there is consistency in goals and objectives across all centres. These are positive indicators which, from a policy analysis perspective, can give the government confidence in moving ahead with expansion. The Government of Ontario has determined the health goals for Ontario. The CHC program is one way that it has decided to implement activities related to these goals. It is assumed, based on extensive health policy research that went into the development of these goals, that activities related to these goals will contribute to the development of a healthier Ontario.*

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## ELIGIBILITY FOR SERVICES

The primary criterion for receiving services from a CHC is membership in a designated group within a given area. Health insurance eligibility under the Ontario Health Insurance Plan is not a requirement for access to CHC services.

We acknowledge that the present arrangements allow CHCs to provide medical services to uninsured refugees and residents of Ontario without a permanent address who may have neither the documentation nor the desire to establish their eligibility under the Ontario Health Insurance Plan. However, the policy of not requiring eligibility under the Plan could result in increased demands on the CHC program by individuals who are not residents of Ontario.

The program is particularly susceptible to such increased demand at this time given the actions being taken by the Plan to ensure services are provided only to eligible persons and the recent announcements by the Minister of Health that the Plan's eligibility rules will be tightened.

### RECOMMENDATION:

**The Ministry should monitor compliance with the policy of providing medical services to approved non-insured patients.**

### MINISTRY RESPONSE:

*The purpose of this policy is to provide accessible and appropriate services to people at high risk of illness and disease (for example, street people and refugees). It is both humane and financially prudent to provide first level primary care to these individuals who, if left without care, would eventually require more costly secondary and tertiary care services.*

*As a starting point, the Ministry has instituted a reporting system to monitor use of the funding provided for services to non-insured refugees. This system became effective on January 1, 1994.*

## INFORMATION TECHNOLOGY

Although the Branch does not have a computerized management information system that can make use of data from CHCs, the CHCs maintain computerized records of patient visits and enrolment.

CHCs initially submitted this information in machine readable form to the Branch. However, since the Branch lacks a computer system that can use the information provided, most CHCs stopped submitting it. As a result the Branch cannot monitor such things as:

- the extent to which a CHC is serving its priority population. The lack of this data also inhibits health policy planning at the Ministry;
- the extent to which CHC clients are also receiving primary health care from HSOs and fee-for-service physicians;
- the trends in services being rendered to patients without health insurance; and

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- the validity of any health insurance card numbers provided. Statistics gathered by the CHO program for four CHCs indicated that 50% of their reported enrolled patients did not have valid health numbers.

#### **RECOMMENDATION:**

**A computerized management information system should be developed in order to monitor the performance of the CHC program.**

#### **MINISTRY RESPONSE:**

*We agree that such an information system is required.*

*The CHC program, as part of its efforts in the area of evaluation will be developing indicators and data systems to capture information related to the indicators so that performance can be measured and improved on an on-going basis.*

### **OPERATING BUDGETS AND FINANCIAL REPORTING**

To assist CHCs in preparing their annual operating budgets, the Branch provides them with written guidelines outlining the information to be submitted with the budgets.

CHCs prepare their annual budget submissions using standard line-by-line items such as salaries, benefits, rent, supplies and other operating expenses. These items are cross-referenced to detailed information about programs to be delivered, services to be provided and corporate support.

In addition to the financial items, CHCs submit narrative reports on the results of the prior year's activities, new programs and other financial pressures. Operational statistics on increases in enrolment and patient visits are also provided.

Branch staff review the submissions in detail, assessing both current funding levels and the need for additional funding for new services or programs. Branch staff also meet with the boards of directors and administrators to discuss their funding and activities.

Once an operating budget is approved, the Branch and the CHC sign an agreement indicating the amount of the grant and its terms and conditions. The CHC agrees to maintain adequate medical and financial records, to provide the Branch with financial reports and to use the funding for the operation of programs specified in its agreement with the Branch.

CHCs are required to submit quarterly statements which are compared against the budgets. Variances in excess of 5% must be accompanied by a written explanation. Any unspent money is recovered by the Branch in the following year.

We noted, however, that the agreements with CHCs do not indicate the specific results or performance targets which the Ministry expects CHCs to accomplish with their funding allocations. We acknowledge the difficulty in developing these performance indicators. However, without such information, the Ministry cannot adequately monitor the achievement of results on an ongoing basis.

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## APPROVAL PROCESS FOR NEW CENTRES

The CHC program has a standard application process to be followed by all community groups seeking Ministry funding for the creation of a CHC. This process requires input from a variety of sources including evidence of community health needs, identification of priority groups and the feasibility of establishing a CHC to provide the required services.

Information collected by the applicant is summarized and submitted to the local District Health Council for approval. If the Council agrees with the applicant's assessment of the community needs and the services required to meet them, the submission is approved and sent to the Branch for evaluation.

Criteria established by the Branch are used to evaluate an applicant's submission. Each criterion is given a weight according to its relative importance to the program. The applicants receiving the higher scores are approved for funding. The number of applications approved is dependent upon the available funding.

Our review indicated that a satisfactory process was in place to consistently evaluate individual submissions. However, since the Branch does not have an overall strategy to collect data on health and social needs at the community level for all communities, it cannot determine that the submissions received represent those communities with the greatest need.

### RECOMMENDATION:

**If the CHC program is to be expanded, the Ministry should investigate the feasibility of developing a system to collect data on community health and social needs which would enable the Ministry to encourage those communities with the greatest need to apply for a CHC.**

### MINISTRY RESPONSE:

***We agree that this type of data system would be very useful in the development of CHCs and other programs of the Ministry. The Community Health Framework Project is developing a database which will enable the Ministry to provide profiles of each community and which will assist the Ministry to identify those communities with the greatest need for a CHC.***

## SAFEGUARDING OF ASSETS

Since the commencement of capital funding in 1989, the Branch has awarded grants of \$34 million to 29 CHCs for the purchase and renovation of buildings. The Branch forecasts that over the next four years an additional \$75 million will be expended on capital projects. In addition, the Branch provided CHCs with \$2.4 million in 1993/94 for the acquisition of furniture and fixtures.

Although funding for CHC property acquisitions is provided by the Ministry, ownership of the property remains in the name of the CHC. As part of the funding arrangement, a CHC is required to provide the Ministry with a letter of understanding stating that it will

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repay the amount of the capital grant or the depreciated value of the property should the CHC cease operations.

CHCs are registered under the *Corporations Act* as corporations without share capital. Under this legislation, CHCs may distribute their property on dissolution to any charitable organization whose objectives are beneficial to the community. If a by-law stipulating how assets are to be disposed of on dissolution is not passed by the CHC board, the assets may be distributed to the CHC membership.

Our review of Ministry procedures to safeguard its investment in capital assets, should a CHC cease operations, revealed the following deficiencies:

- the letter of understanding does not indicate how any profit from the sale of property is to be handled;
- while the letter covers the acquisition of property, it does not cover furniture or fixtures since these assets are acquired from operating grants; and
- the letter does not prevent a CHC from placing mortgages on the property or using the property as collateral for loans.

#### **RECOMMENDATION:**

**The Ministry should review the letter of understanding to:**

- **clarify how the profits from the disposal of a capital asset will be handled;**
- **require ministerial approval for any encumbrance placed upon the property; and**
- **determine its consistency with the provisions of the *Corporations Act*.**

#### **MINISTRY RESPONSE:**

***We agree that this issue should be reviewed. It has been placed on the Community Health Centre program's priority list for 1994/95.***

## **HEALTH SERVICE ORGANIZATIONS**

The Health Service Organization (HSO) program was established in 1973 under the *Health Insurance Act*. The overall goal of the program is to ensure accessible, flexible, co-ordinated, high-quality primary care, emphasizing health promotion and disease prevention and using a cost-effective service delivery model that offers alternatives to institutional care whenever appropriate.

The Community Health Branch funds HSOs through monthly payments determined by multiplying the number of patients on their rosters by an agreed-upon per capita rate, adjusted for the age and sex of individual patients. These patients are required to be insured persons under the *Health Insurance Act*.

HSOs receive the same monthly capitation amount per patient whether the patient is seen by the HSO several times in a month or not at all. However, if patients receive services from physicians outside the HSO which the HSO is expected to provide, deductions (negations) are made from subsequent payments to the HSO.

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In addition to the capitation payments, HSOs received a monthly bonus from the Ambulatory Care Incentive Plan which was intended as an incentive to HSOs to reduce their patients' use of acute care beds. The Ministry expected that the Plan bonus payments would be used to hire ancillary staff to enhance primary care. This monthly bonus was paid to HSOs that had lower-than-average rates of hospital usage for their patients as compared to rates for other patients in the same region. The Ambulatory Care Incentive Plan was cancelled in August 1992, and the last payment was made in April 1993.

Ministry information indicates that from 1988/89 to 1990/91 the program grew from 45 HSOs serving 291,000 patients to 88 HSOs serving 500,000 patients. During that period, payments increased from \$52 million to \$90 million. In 1991, because of concerns about the method of funding and the performance of HSOs, the Ministry placed a freeze on the establishment of new HSOs. In an attempt to control costs and improve accountability, the Ministry began negotiating with the Ontario Medical Association (OMA) to reduce funding and roster sizes. An interim agreement was reached in August 1992.

In August 1993 the Ministry and the OMA entered into a new three-year contract. This contract set per capita rates at a level close to those paid in 1988/89. Previously, rates were set annually from the provincial average of OHIP's fee-for-service system. In addition, the amount deducted for patients using physicians outside their HSOs was increased in this contract from a patient's per capita rate to 50% of the actual cost of outside services paid for by the Ontario Health Insurance Plan.

When the Ambulatory Care Incentive Plan was cancelled, it was replaced by a grant program called the Institutional Substitution program. This program is intended to directly fund enhanced primary care services for HSO patients.

There are currently 77 HSOs with Ministry funding estimated at \$84.3 million in 1993/94. The total number of patients in the HSO program is about 467,000; they are served by 377 physicians and ancillary health care staff.

## **MEASUREMENT AND REPORTING OF PROGRAM EFFECTIVENESS**

Procedures were not in place to measure and report on program effectiveness.

While program objectives have been established, measurable performance targets have not been set to evaluate the achievement of these objectives on a timely basis. Furthermore, the lack of a computerized system to show what medical services are being provided to patients as well as the lack of reliable data about enrolments prevent the Branch from effectively administering and monitoring the program.

An example of what can go wrong when the effectiveness of a program is not monitored is demonstrated by the following:

- during the 1989 and 1990 calendar years, 153 physicians joined the HSO program. According to Ministry information, the average annual income of these physicians in 1991/92 was approximately double their fee-for-service income prior to joining the program. The Branch did not have a mechanism to assess, on a timely basis, whether the increased costs to provincial health care had resulted in better care to patients. Branch management subsequently reduced the per capita payments and cancelled the Ambulatory Care Incentive Plan. According to Ministry information, the Plan was cancelled because there was no evidence to indicate that it had reduced the use of acute

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care beds by HSO patients. This decision was made after many years of significant funding, including \$50 million during the three-year period ending March 31, 1993; and

- evaluations of the appropriateness of payments and the effectiveness of the program should have been done before the rapid growth which took place between 1988/89 and 1990/91. Merely changing the payment mechanism for physicians is not likely to ensure the achievement of program goals such as increasing preventive care and improving primary care. The Branch needs to gather data to indicate whether health care practices actually did change, and if they did, how effective those changes were.

#### **RECOMMENDATION:**

**The Ministry should investigate the feasibility of developing a system to measure and report on the effectiveness of the Health Service Organization program.**

#### **MINISTRY RESPONSE:**

*We agree. Work is in progress to investigate the feasibility of developing a system to measure and report on the effectiveness [of the Health Service Organization program], and it is anticipated this work will be completed by October 1995.*

### **INFORMATION TECHNOLOGY**

The Encounter System and the Roster and Financial System are the primary information systems of the HSO program. Due to difficulties in retrofitting these systems for the introduction of health cards in July 1991, the Encounter System has been left inoperable and the Roster and Financial System has been producing inaccurate data.

#### **ENCOUNTER SYSTEM**

When an HSO patient visits a physician, a document is completed indicating the type of visit and services or procedures performed. This information is provided to the Ministry on disk and converted to tape for processing on the Encounter System. However, since this system became inoperable, the Branch has been unable to monitor the services that are being provided to HSO patients. In addition, we were informed that encounter information from early 1989 to mid-1991 was lost when the aging of taped data triggered an automatic deletion mechanism. This lack of data inhibits health policy planning at the Ministry.

#### **ROSTER AND FINANCIAL SYSTEM**

Each month, HSOs submit disks of updated roster data to the Ministry. This information is processed by the Roster and Financial System in Kingston to generate the capitation and negation details for each HSO. Printed reports are then sent to the Community Health Branch in Toronto so that payments can be processed.

Due to known errors and a general lack of confidence in the roster data since the introduction of health cards, payments to HSOs were based on rough estimates of capitation and negation from November 1991 to March 1993. Although the quality of the information has improved since then, there are a number of reports needed by management which the

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current information technology is incapable of producing. Others can be produced only through special computer runs which are both time-consuming and costly. Examples include reports on gross revenue per physician, on roster growth and on outside billings for HSO rostered patients.

Branch management has recognized the need for a new computer system for many years, and in 1990 a consultant's study was completed documenting the HSO computer requirements. However, because of other Ministry priorities, the design for a new system is only now being completed and has not been given approval for implementation.

#### **RECOMMENDATION:**

**The Ministry should implement its new information technology system as quickly as possible so that the Ministry can obtain the data necessary for making decisions about the future of the Health Service Organization program.**

#### **MINISTRY RESPONSE:**

*We agree. Information Systems Division has allocated resources to develop the new information system.*

### **ROSTER MAINTENANCE**

Accurate rosters of patients are required to generate correct payments to the HSOs. However, we found that controls over the maintenance of rosters were lacking.

#### **ROSTER VERIFICATION**

Transaction records supporting roster additions and terminations are kept on file at the HSOs. These documents are signed and dated by individuals to indicate either their desire to join the HSO or to leave it. However, the Ministry does not periodically verify the validity of this documentation. With the exception of four HSOs where signatures were checked in 1992, no audit procedures on transaction records have been performed.

#### **PROTOCOLS**

In 1989 a consultant was used to develop a roster management system whereby protocols were set to determine when patients are no longer considered to be using an HSO for primary care, based on their pattern of using medical services outside the HSO. However, this system was never implemented. We believe it is essential that the Ministry set protocols for terminating enrolment for non-use and outside-HSO visit patterns. This has become even more important since the August 1993 contract when negotiations increased from one month's capitation payment to 50% of the actual cost of outside use. This creates a financial incentive for physicians to deroster patients with high outside use, thus biasing their roster towards healthier patients.

Protocols are crucial for ensuring the accuracy of rosters. There are indications that significant overstatement has occurred in the past. For example, during retrofit approximately 71,000 patients were deleted by the Ministry from HSO rosters as of July 1, 1991 because physicians were unable to obtain health card numbers for these patients. However, ac-

cording to Branch management, only 27,000 of these patients have been subsequently re-enrolled, two and one-half years later. Thus, as of July 1991 as many as 44,000 patients were on HSO rosters who may not have been using HSOs for primary care.

### OMA CONTRACT

The new HSO contract between the Ministry and the OMA includes roster and program growth restrictions as follows:

- an HSO may not have more than 2,500 rostered members per full-time equivalent physician;
- a roster that exceeds this maximum on August 1, 1993 may be reduced by attrition but not increased until it is less than 2,500; and
- an HSO may not increase its roster by more than 5% unless it receives the approval of the Minister.

The contract also allows each HSO physician to bill up to \$30,000 in fees-for-service for patients who refuse to become HSO patients or who are transients.

At the time of our audit, procedures had not been established by the Ministry to monitor compliance with these provisions.

### RECOMMENDATIONS:

To help ensure that rosters and funding are accurate, the Ministry should:

- periodically select a sample of patients from each Health Service Organization roster and confirm with the patients their intent to continue using the HSO as the sole provider of their primary care needs; and
- establish protocols for terminating membership for non-use and outside HSO visit patterns.

The Ministry should also implement procedures as soon as possible to ensure HSOs comply with roster and program growth restrictions and to monitor the permitted fee-for-service billings by HSO physicians.

### MINISTRY RESPONSE:

*We agree. To date the priority has been to complete the health number project. Now that this is complete the program will audit HSO rosters and confirm with patients their continued membership in HSOs. Protocols for terminating membership are under discussion with the Ontario Medical Association.*

*These procedures are under development and will be implemented shortly.*

## COMPREHENSIVE HEALTH ORGANIZATIONS

The Comprehensive Health Organization (CHO) program was established in 1989 in response to the Premier's Council on Health Strategy which encouraged local decision making in health care. A CHO is a non-profit corporation which provides or purchases a

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full range of health care services for a voluntarily enrolled population. Funding of CHOs will be on a per capita basis. The CHO initiative represents a fundamental re-design of the Ontario health care system.

The Ministry expected that 18 CHOs would be established by 1993. In 1992 this number was reduced to 12. As of December 1993, there were no CHOs in operation. One CHO is tentatively scheduled to open in July 1994.

## **FEASIBILITY AND DEVELOPMENTAL STUDIES**

Communities interested in the CHO concept progress through a series of planning stages. The initial stage involves a commitment by the community to explore the concept. If a community and its key health care providers such as hospitals and physicians arrive at a consensus, funding may be provided by the Branch to explore the feasibility of developing a CHO in that community. At the completion of the feasibility stage, a report is issued to the Branch indicating whether or not the community wishes to proceed with the developmental study stage.

If a community group expresses support for the CHO concept, the feasibility report is reviewed by the local District Health Council to corroborate the viability of a CHO and the understanding of the concept by the group.

As of December 31, 1993, the Ministry had provided \$4 million to 10 community groups to conduct feasibility/developmental studies.

Six of the ten groups decided that the CHO concept was not suitable for their communities and withdrew from the program. The total cost of the feasibility studies was approximately \$2.3 million. Of the remaining four, two were still in the feasibility study stage, and two had progressed to the developmental stage.

The Ministry has recently introduced procedures to assess prospective sites prior to approval of feasibility study funding. For example, the Ministry now requires formal letters from key health care providers stating that they are committed to participating in operating CHOs.

## **BARRIERS TO IMPLEMENTATION**

Our review of project files and discussions with program management indicated many reasons for the delay in establishing operating CHOs. These included such reasons as:

- community users and health care providers are resistant to significant changes in the way health care is funded and delivered. They are more comfortable with familiar than with untried health care delivery models. Consequently, a great deal of time and energy must be used to convince them of the merits of the new, untried concept;
- the objectives and responsibilities of the CHO concept overlap with existing Ministry programs or agencies. For example, a CHO is responsible for planning all health resources for a community. Yet this is also a responsibility of both the District Health Councils and Multi-Service Agencies created to administer long-term care services. These programs may undergo policy changes without giving consideration to the effect the changes would have on the CHO program; and

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- the concept is being proposed at a time when the current health care system is being significantly reformed and restructured. Community groups may be reluctant to commit to the concept until an operational CHO is in place in some other community.

We were informed that the Ministry is in the process of clarifying the role and relationships of CHOs in order to eliminate barriers to the implementation of the program.

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# Grants to Public Hospitals

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The Hospitals and Related Facilities activity of the Ministry's Health System Management Program is responsible for the operational and capital funding of public hospitals. The *Public Hospitals Act* governs and regulates the operations of public hospitals in Ontario. The *Health Insurance Act* allows for the funding of the approved services provided by hospitals. For the 1993/94 fiscal year, estimated expenditures for public hospitals totalled \$7.5 billion.

Between 1983 and 1993, funding for the operations of hospitals increased by 100%, which is double the rate of inflation over the same period. Annual funding increases averaged 8.4%. However, for the fiscal year 1993/94, while the Ministry's plan was to limit the projected annual increase to 1%, expenditures actually decreased by .5%.

The 220 public hospitals in the province provide acute, chronic, rehabilitation and specialty health care services. Physicians and the public also rely on hospitals to provide diagnostic and out-patient services. During the 1992/93 fiscal year, the most recent year for which aggregate data is available, public hospitals maintained 43,000 beds, employed 130,000 staff, served 1.3 million in-patients, and handled 14 million out-patient visits.

Every hospital is governed by a Board of Directors. Each board is responsible for ensuring that the provisions of the *Public Hospitals Act*, the Act's regulations and the by-laws of the hospital are being complied with. The majority of hospital funding is provided by the Ministry of Health. Other sources of revenue include preferred accommodation, parking lot fees, cafeteria sales and interest on funds invested.

Under the *Ministry of Health Act* and the *Public Hospitals Act*, the Minister of Health is ultimately responsible for the operations of public hospitals, including their cost-effective administration and the quality of care they provide. The Institutional Health Division of the Ministry is responsible for the overall planning, operation and funding of public hospitals.

## OBJECTIVE AND SCOPE

Our overall audit objective was to assess the adequacy of procedures used by the Ministry to obtain reasonable assurance that value for money is being obtained for the grants provided to public hospitals.

The scope of our audit focused on a follow up of the Ministry's efforts to address the issues raised and recommendations included in our 1991 *Annual Report*. Additionally, we examined the role of District Health Councils, equity funding, capital grants and the work of the Ministry's Audit Branch pertaining to public hospitals.

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Our follow-up audit was primarily conducted at the Ministry's Institutional Health Division and included discussions with Ministry staff, an analysis of documents and statistics maintained by the Ministry, and a review of relevant reports.

## AUDIT OBSERVATIONS

Subsequent to our 1991 audit, the Ministry has implemented a number of measures to strengthen the hospital monitoring process.

These measures include: the introduction of the *Hospital Operating Plan* process which includes an outline for Ministry approval of hospital costs, staffing and services; a simplified management structure with a new comptroller function to coordinate financial monitoring; and the development, in conjunction with the Ontario Hospital Association, of a new computerized management information system.

The following audit observations outline the current status of Ministry efforts to address the issues and recommendations in our 1991 report.

## ACCOUNTABILITY

### COMPLIANCE WITH DIRECTIVE

In 1988, Management Board of Cabinet issued a Directive which required the establishment of an effective framework to hold transfer payment recipients accountable for their management of public funds. An underlying principle of the Directive is that the expenditure of public funds should be managed prudently to meet planned objectives and results for effective program delivery.

The four major steps of the accountability process, as outlined in the Directive, are:

- setting expectations (deciding on the objectives and results the recipient is to achieve);
- contracting (entering into an agreement with the recipient about the objectives and results to be achieved and the reporting responsibilities);
- reporting (timely reporting on the achievement of objectives and results by the recipient to the Ministry); and
- corrective action (taking necessary corrective action when objectives and results are not being achieved).

In November 1989 Management Board Secretariat requested ministries to have their internal audit branches, over the next three fiscal years (1991 to 1993), audit all transfer payment accountability frameworks for compliance with the Directive.

In our 1991 report, we commented that while the accountability framework submitted by the Ministry to Management Board of Cabinet addressed some of the requirements of the Directive, many of the aspects of the framework depended on revisions to the *Public Hospitals Act*. For example, a possible revision was the establishment of formal lines of accountability between hospital boards and the Ministry. We also commented from our review of the framework that:

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- the Ministry had not entered into an agreement with the hospitals about the objectives and results to be achieved because of possible changes to the *Public Hospitals Act*; and
  - many of the reporting requirements were the same ones that have been in place for the past several years (e.g. operating budgets, annual reports). There were minimal requirements for reporting whether funds spent by hospitals were managed prudently.

The Deputy Minister indicated in his response to our report that the Ministry will continue to implement the accountability framework approved by Management Board in 1989 and that plans were under way to strengthen the lines of accountability and reporting requirements between hospital boards and the Ministry through revisions to the *Public Hospitals Act*. According to the Deputy Minister, a broad spectrum of health care individuals and other interested groups were involved in the review of the Act.

During our current audit, we noted that in February 1992 the Chair of the Steering Committee for the Review of the *Public Hospitals Act* presented its report *Into the 21st Century* to the then Minister of Health. The report contained 14 pages of specific recommendations covering topics such as governance, management, and quality and effectiveness of hospital services and care. Recommendations included:

- management should present regular and comprehensive reports which provide the Board of Directors with sufficient information to fulfil its responsibilities for the overall effectiveness of the hospital;
- the Board of Directors should commission periodic independent evaluations of the effectiveness of the hospital;
- the Act should provide for the regulation of hospitals by the Minister through review of performance and intervention when necessary to protect the public interest; and
- the Minister should introduce legislation which mandates co-ordinated and integrated planning at the district, regional and provincial levels.

The conclusions to the report stated that the present *Public Hospitals Act* has served Ontario well for the past 60 years and it was time to develop new legislation to serve society into the twenty-first century.

In April 1992 the Ministry indicated that the government had placed a high priority on proceeding with the development of a new Act and that a consultation process would be established to enable the public to respond to the committee's report. However, we understand that due to a lack of consensus among those consulted, new legislation has not been drafted. Consequently, six years after the Directive was issued, the Ministry has not fully complied with the Directive for the largest of government grant recipients, public hospitals.

We also found that the Audit Branch of the Ministry had not audited the accountability framework for compliance with the Directive as requested by Management Board Secretariat. We noted that the Secretary of Management Board Secretariat has recently written to all deputy ministers requesting information on the results of internal audits of accountability frameworks carried out between 1990-1992, or more recently, if applicable.

We believe that important elements of the framework such as the agreement with hospitals about the objectives and results to be achieved can be pursued without changes to the *Public Hospitals Act*. A framework implemented in accordance with the Directive will provide Ministry management with an overall plan to put policies and procedures in place to hold hospitals accountable for the prudent expenditure of public funds.

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## RECOMMENDATIONS:

A more appropriate accountability framework should be implemented and reviewed by the Ministry's Audit Branch for compliance with all requirements of the Directive.

Timetables should be established for the implementation of the framework.

## MINISTRY RESPONSE:

*The Ministry has implemented many of the components of the 1989/90 accountability framework through the hospital operating plan guidelines which were introduced in 1992. The operating plan guidelines in many respects, go beyond the requirement of the accountability framework in that their development and review involves a public process. The Ministry will update the accountability framework document to reflect these changes and to provide an implementation timeframe for the planned improvements.*

## HOSPITAL ACCREDITATION REPORTS

The Canadian Council on Health Facilities Accreditation, an independent organization, administers an accreditation program for health care facilities. The purpose of the Council is to promote excellence in the provision of quality health care and the efficient use of resources in health care organizations. The Council provides the opportunity for voluntary participation in an accreditation program based on national standards, self evaluation and input from health care professionals.

In our 1991 report, we noted that since copies of accreditation reports were not obtained, the Ministry was often not aware of whether hospitals had addressed the issues and recommendations in the reports. The Deputy Minister's response explained that the Ministry considered the review of accreditation reports to be an important procedure to ensure that hospitals have in place standards for all aspects of their operations. He further commented that the Ministry will request hospitals to provide this information.

In January 1992, the Ministry requested that all public hospitals submit their accreditation reports. By May 1992, 110 public hospitals in Ontario had complied and submitted their accreditation reports. The Ministry recorded the receipt of accreditation reports, the accreditation period and the expiration date of the accreditation. However, the Ministry did not maintain this recording system and aggregate accreditation information is currently not being compiled.

According to information obtained by us from the Canadian Council on Health Facilities Accreditation, 214 of the 220 public hospitals in Ontario have been accredited. Of the remaining six hospitals, two have chosen not to seek accreditation; one is brand new; one has since closed; one cannot be accredited because it does not have a full-time doctor on staff; and one lost its accreditation in 1985 and has not been accredited since. These hospitals total fewer than 500 beds. The period for which accreditation is granted, ranging from two to four years, is an indicator of the degree to which hospitals meet the Council's standards. The information received from the Council indicated that over 10% of the health care facilities in Ontario were granted a two-year accreditation which signifies only a fair degree of compliance with the Council's standards.

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Proper monitoring requires a system to ensure that all accreditation reports are received, reviewed and, followed-up to ensure appropriate corrective action has been taken to address any concerns noted in the report. At the time of our audit, March 1994, there was no process in place to ensure that all accreditation reports were received, reviewed and followed-up by the Ministry.

#### **RECOMMENDATION:**

**The Ministry should again request hospitals to submit their accreditation reports which should then be followed-up to ensure that appropriate action is taken by the hospitals to resolve any deficiencies noted.**

#### **MINISTRY RESPONSE:**

*The Ministry is reinstating the monitoring process to ensure that appropriate action is taken by hospitals to address issues identified in the accreditation reports.*

### **DISTRICT HEALTH COUNCILS**

District Health Councils (DHCs) were established pursuant to the *Ministry of Health Act* which permits the establishment of committees to assist the minister in the discharge of his or her duties. Province-wide, 32 DHCs help plan and co-ordinate health care services in their communities. For the fiscal year ended March 31, 1994, estimated expenses for DHCs totalled \$22.1 million.

DHCs range in size from 15 to 20 members who volunteer their time and each Council employs a small administration staff. Councils provide advice on funding, capital expansion, human resource requirements, and integrating health with social service programs.

In 1992 a Joint Task Force comprising the Association of District Health Councils of Ontario, the Ministry of Health and the Ministry of Community and Social Services examined and reported on the role of DHCs. The report noted that DHCs cannot deal with their increasing responsibility without a strengthened planning infrastructure, appropriate resources and a mandate that is clearly stated in legislation and policy.

The task force recommended a number of strategic directions to strengthen the DHCs role as the lead local planning body for health care services. These suggestions included:

- the drafting of regulations under the *Ministry of Health Act* to address the planning roles and responsibilities of the Councils. Currently, the legislated role of DHCs is limited to advising the minister. For example, all hospital operating plans must be reviewed in the context of the local health systems needs and endorsed by the Council before the Ministry considers the plan for approval;
- the drafting of a memorandum of understanding between DHCs and the Ministry. The task force noted that a memorandum of understanding is a mandatory requirement of the Management Board of Cabinet. This document would formally outline the respective roles and responsibilities of the Ministry and the Councils; and
- updating the operational process requirements as described in the *DHC Administration Manual*. The current manual, in an incomplete form, was produced in 1986. Given the

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new strategic directions proposed for DHCs, consolidating policy in the form of a manual may help clarify the changes and enhance administrative consistency between Councils.

These tasks were to be, but were not, completed by November 1993. In January 1994, working groups were established to address each of the strategic directions proposed by the Joint Task Force. However, no new time frames have been developed.

#### **RECOMMENDATION:**

**The Ministry should set time frames to either implement or otherwise conclude upon each of the strategic directions proposed by the Joint Task Force.**

#### **MINISTRY RESPONSE:**

*It may be worth noting that the responsibility for implementing the Joint Task Force (JTF) report lies with both the Ministry of Health and the District Health Councils (through the Association of District Health Councils of Ontario - ADHCO).*

*Please find a response to the three strategic directions emphasized in the audit report as follows.*

- 1. The recommendation to draft regulations under the Ministry of Health Act to address the planning roles and responsibilities of the Councils has been completed. The proposed Long-Term Care Act, 1994 (Bill 173), section 62 will amend the Ministry of Health Act to add specific authority for the Minister to establish District Health Councils (DHCs) and an explicit statement of the functions of DHCs. In addition, the Bill amends the Minister's regulation-making power so that regulations can be made regarding the composition, structure, functions, duties and manner of operation of DHCs.*
- 2. A final draft of a model Memorandum of Understanding between DHCs and the Ministry has recently been completed. The Ministry and the Association of District Health Councils of Ontario are currently reviewing the model MOU for approval. The draft model MOU will also be circulated to the DHCs for their information.*
- 3. Updating the DHC Administration Manual is expected to follow some preliminary conclusions of the DHC resource assessment (which is being led by the DHCs) and is expected to begin during the next couple of months.*

*Many other JTF tasks have been completed. Those which have not, are expected to be implemented within fiscal year 1994/95.*

#### **BED CLOSURES**

Ministry monitoring of hospital bed closures is necessary to ensure that the patient care needs of the community are looked after.

In our 1991 report, we noted that, between the fiscal years 1987/88 and 1989/90, 46 public hospitals closed 1,200 beds. The majority of these beds were closed without Ministry approval or monitoring. The Deputy Minister responded that hospitals must operate

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within allocated resources and any changes in service levels of specialized programs such as cardiovascular, cancer and in-patient psychiatry require Ministry approval. He further explained that the Ministry encouraged the trend in hospitals to shift the emphasis from in-patient to ambulatory care and improve the utilization of existing in-patient hospital services. Accordingly, beds were no longer viewed as the only indicator of adequate service availability.

In January 1992, the Ministry produced a report titled the *Health Services Planning Framework*. This Framework outlined broad parameters for local planning and restructuring to help reduce the need for in-patient services and make health care more affordable. For example:

- to help reduce the number of beds required, the Ministry has encouraged hospitals to reduce the length of time a patient remains in the hospital. The average length of stay in public hospitals has been reduced from 11.5 days per patient in 1989/90 to 10.7 days in 1992/93. Province-wide, this has resulted in a reduction of over 1 million days of care which can be translated into a reduction of 3,000 beds;
- the Ministry advocated more economical day surgery alternatives over in-patient techniques. For example, comparative data on in-patient versus out-patient surgery, categorized by type of operation, was sent to all hospitals in November, 1993. The objective of this report was to suggest opportunities to shift to more economical out-patient services. The report identified a potential reduction of 2,500 beds. Since 1990, out-patient activity has increased by almost 1 million visits or 7.4%; and
- the Ministry adopted a guideline of 850 acute care patient days per 1,000 population. Province-wide days of acute care have dropped from 950 per 1,000 in 1991/92, to 850 in fiscal 1992/93. Bed reductions were made in almost every county and district in the province.

During the 1991, 1992 and 1993 fiscal years, 5,500 beds were closed in 140 hospitals. Our review of a sample of 15 hospitals which closed a total of 750 beds in the 1993 fiscal year revealed that over 70% of the closures were endorsed by the local DHCs and approved by the Ministry through the operational plan process.

Ten of the 15 hospitals surveyed in our sample, reported to the Ministry that beds were to be closed, not because of declining demand, but in order to balance the budget and avoid operating deficits. However, these hospitals outlined to the Ministry the methods they intended to employ to maintain service levels despite bed reductions.

The Ministry does not have a system in place to monitor bed closures to ensure that service levels are maintained as beds are reduced and that service reductions are not offset by increased waiting periods for treatment. A periodic collation of hospital waiting lists could be used by the Ministry to determine if service levels are adequate and to direct resources to the most critical areas.

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The Ministry requests information from hospitals on the impact any proposed changes may have on waiting lists. However, with the exception of cardiovascular surgery and cancer radiation treatment, the Ministry does not collect or maintain waiting list data.

## **RECOMMENDATIONS:**

**To provide for more focused and managed bed reductions, the Ministry should:**

- approve all hospital bed closures; and
- consider the use of waiting lists for determining the adequacy of service levels.

## **MINISTRY RESPONSE:**

*It is the Ministry's policy that hospitals require Ministry approval to close beds. Since 1992/93, hospitals have been required to submit to the Ministry through their annual operating plan any proposed changes to programs and service levels including beds. These plans are submitted to the district health council for their review to ensure consistency with local health needs, and to the Ministry of Health for approval. The Ministry's approval may not have been documented in a small number of cases; however, the Ministry process has been changed to require full documentation in all cases.*

*It is a fact of health care that beds alone are not the benchmark by which to judge the availability of services. The auditors have already observed there has been a significant shift from in-patient to out-patient care and that since 1990 out-patient activity has increased by almost 1 million visits or 7.4%.*

*Waiting lists are in place to monitor access to specialty programs such as cancer treatment and cardiovascular surgery. The feasibility of the use for waiting lists for other specialty programs, such as dialysis treatment, is being explored. In addition, through the MOH/OHA Joint Policy and Planning Committee, comparative studies of all the hospitals are being done to identify opportunities to improve utilization of hospital services in such areas as out-patient and day surgery programs.*

## **PUBLIC COMPLAINTS**

During the calendar years 1992 and 1993 the Ministry recorded the receipt of over 700 hospital care complaints. These public complaints provide the Ministry with an opportunity to gain information which can be used to monitor and improve the quality of care offered by hospitals.

Our 1991 audit noted that the Ministry did not have procedures in place to ensure that all complaints were adequately followed up. The Deputy Minister's response stated that the Ministry will continue to strengthen its procedures regarding the handling and following-up of patient complaints.

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During our current audit we reviewed the Ministry's handling of hospital care complaints and noted the following:

- All complaints are logged into a computerized correspondence system. However, the system does not present an accurate record of the number of complaints received. For example, the 700 letters classified as hospital care complaints included multiple letters, separately recorded, in regards to the same complaint.
- No one department is responsible for handling hospital care complaints and there are no procedures in place to ensure that the Ministry staff responsible for monitoring hospitals are informed of all complaints received.
- Our 1991 audit noted that over 20% of the complaints received were not adequately followed up. During the current audit the Ministry had addressed 90% of the complaints tested. However, follow-up action was often limited to acknowledging receipt of the complaint, deeming the complaint to require no response or referring the complaint to the appropriate hospital or medical association.

In 1993 the Ministry drafted complaint procedures which called for a monthly report on the number, type, severity and follow-up of complaints for management review. However, the current system limits the potential to generate such reports because the information currently recorded often lacks important details such as the hospital's name or the nature of the complaint. Consequently, such reports were not being prepared.

#### **RECOMMENDATION:**

**In order for public complaints to be properly utilized by Ministry staff to monitor and improve the quality of care offered by hospitals, the Ministry should:**

- ensure that all complaints are properly recorded;
- ensure that the Ministry staff responsible for monitoring hospitals acknowledge receipt of all complaints;
- ensure that all complaints are adequately followed up; and
- generate useful complaint monitoring reports.

#### **MINISTRY RESPONSE:**

*The Ministry has already taken steps to strengthen the way in which public complaints are addressed. A review has been in process since early this year, in collaboration with the Ontario Hospital Association and hospitals to find ways to improve this process. The issues identified in the audit will be addressed through this review.*

## **FUNDING OF HOSPITAL OPERATIONS**

The Ministry provides operational funding to hospitals in accordance with the Business Oriented New Development (BOND) plan and transitional funding. BOND funding consists of a base allocation (adjusted for inflation), growth (increased utilization of services), life support (specific services defined by the Ministry), and approved new and expanded programs.

Under transitional funding, the growth portion of the BOND funding is calculated on a hospital's clinical case load. Transitional funding includes an equity fund established to address and correct the imbalances and inequities in funding levels among hospitals and an incentive fund established to provide up to 100% funding to hospitals for projects which promote the effective management of hospital resources.

During the 1992/93 fiscal year, the Ministry provided public hospitals with operating grants totalling \$7.4 billion. Our examination of funding totalling \$1 billion to 30 public hospitals indicated that they were properly approved and paid.

### USE OF SURPLUS

Under the BOND plan, hospitals are permitted to retain their surpluses on operations, but must absorb their deficits. The BOND plan was designed to provide an incentive to control costs, encourage hospitals to become involved in revenue generating activities and provide surpluses for future capital expansion.

The 1992 report on the review of the *Public Hospitals Act, Into the 21st Century*, noted that the use of operating surpluses for capital purposes is potentially inconsistent with legislative practice. The *Supply Act*, under which government funding is approved by the legislature, requires funds to be expended in accordance with the purpose for which they were approved. Consequently, as operating surpluses pertain to approved funding for hospital operations, they should not be used for capital purposes.

The report, *Into the 21st Century*, recognized that the legislative restriction would not apply to those hospitals whose revenues from other sources are combined with Ministry funding. Under these circumstances, it would be difficult to determine whether a hospital's surplus funds are from Ministry funding or other activities.

### RECOMMENDATION:

**The Ministry should take action to correct the inconsistency between the BOND plan and legislative approval concerning the use of operating surpluses for capital purposes by hospitals.**

### MINISTRY RESPONSE:

***The BOND policy will be reviewed during this fiscal year. This task has been identified as a priority for the Finance and Information Committee of the MOH/OHA Joint Policy and Planning Committee.***

### EQUITY FUNDING

The equity funding process involved determining the weighted average cost per case for each hospital and dividing, into peer groups, hospitals which could reasonably be compared to each other. Such factors as workload, demographics and geographic location were considered. Equity funding then allocated a predetermined sum of money to hospitals based on a direct comparison of the relative costs of providing a similar level of service within the peer group of hospitals.

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At the beginning of the transitional funding process in 1988, the Ministry calculated that \$150 million was needed to balance the funding between hospitals in the same peer group. Over the next four years the Ministry provided \$144.2 million in equity funding to 135 different hospitals.

The Joint Policy and Planning Committee of the Ministry and the Ontario Hospital Association had the equity funding process reviewed and reported the following limitations:

- The formula to calculate equity funding used data that was two years out of date. The Committee's report noted that hospitals are changing rapidly and two year old data may not be reflective of current conditions. For example, the hospital which had the largest surplus in the 1993 fiscal year also received the largest equity funding payment.
- A Ministry survey of hospital administrators found that their greatest dissatisfaction with the equity funding process was with the peer groupings. Two hospitals with similar services and resource requirements, could receive different levels of equity funding from the Ministry depending on which peer group they belonged to.
- The calculation of each hospital's case cost was based solely on acute care patients. Other activities can account for a major portion of a hospital's operations and equity funding is affected accordingly. For example, the 23 chronic care hospitals in the province received no equity funding from the Ministry, yet the equity process was intended to include all public hospitals. Inequities apparently exist, since the average cost per bed in chronic care hospitals, for the 1993 fiscal year, ranged from \$39,000 to \$125,000.

The Committee's review of the process noted that, because of imperfections in the methods used to distribute equity funds, it could not be certain that inequities for individual hospitals had been fully addressed.

To achieve the same objectives as equity funding the Committee discussed replacing the equity process with reallocation. Instead of distributing new government funds, funding for hospitals above the average cost per case in a peer group would be reduced and reallocated to hospitals with below average costs.

#### **RECOMMENDATION:**

**The Ministry should address the limitations of the equity funding process.**

#### **MINISTRY RESPONSE:**

*The Ministry, through the Hospital Funding Committee of the MOH/OHA Joint Policy and Planning Committee is addressing the limitation of the equity funding formula.*

*The revised equity funding formula that is being used to reallocate funding among hospitals in 1994/95 has been reviewed extensively over the past year by hospitals and the Ontario Hospital Association and the Ministry of Health. The formula relies on five years of data, it establishes a buffer around the mean for each peer group to ensure that a hospital is not identified in error, and it provides for a cap on the maximum reduction for each hospital. It is supported by the OHA Board of Directors and by the majority of acute care hospitals in Ontario.*

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*Further work on a more comprehensive funding formula has been under way through the JPPC since December 1992 when a three-year plan was put in place to develop new hospital funding methodologies. Work groups will be developing recommendations on appropriate adjustment factors, activity measurements and integration of funding formulas. The JPPC Hospital Funding Committee is planning to consult with hospitals later this year on a proposal for a new funding formula.*

## HOSPITAL REPORTS

Hospitals are required to submit to the Ministry operating reports including annual plans, quarterly statements, and audited year-end financial statements. Our 1991 audit revealed that there was no documented evidence that 65% of the operating reports covered by our audit were reviewed by Ministry staff.

We selected a sample of 20 hospitals and reviewed the quarterly and year-end statements for the 1992/93 fiscal year as well as the annual plans for the 1993/94 fiscal year. In contrast to the 65% reported in 1991, we found no documented evidence that 30% of the operating reports included in our sample were reviewed by the Ministry.

We reviewed Ministry files and interviewed Ministry staff to assess the process they used to analyze hospital financial and operating information. We found that the process varied significantly. The Ministry did not have standardized procedures in place to review hospital operating reports.

Policies and procedures are necessary to provide direction to staff in the conduct of their responsibilities. In our 1991 audit, we reported that the Ministry did not maintain up-to-date procedural manuals. Updated manuals have still not been prepared. For example, the *Hospital Operating Policy Manual* has not been updated in almost ten years. Also, as reported in 1991, visits by staff of the Institutional Health Division to hospitals still ranged from 0 to 12 times a year and were generally not well documented.

## RECOMMENDATION:

**To provide direction to staff in the conduct of their responsibilities, the Ministry should establish policies and procedures for all aspects of hospital monitoring, including basic procedures for the review of all financial and operating information received from public hospitals.**

## MINISTRY RESPONSE:

*Since last year the Ministry has taken steps to revise its policies and procedures on the monitoring of hospital operations and to establish consistent reporting and monitoring processes. Starting in 1994/95 a new Management Information System (MIS) has been made mandatory for all hospitals. The MIS establishes a standard set of definitions and standards for hospital data and financial information. The first phase, which is effective April 1, 1994, will see hospitals reporting departmental data based on the MIS guidelines starting in the 1994/95 fiscal year. Further standardized reporting and review formats have been established for hospital operating plans.*

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## HOSPITAL FOUNDATIONS

Hospital foundations, and other separate organizations, are entities often incorporated to hold real estate or other assets for a hospital, invest funds in interest bearing securities, and carry out charitable activities in the name of the hospital. Donations received by foundations are either restricted by the donor for specific hospital purposes or are unrestricted and may be used at the discretion of the foundation.

The Ministry does not maintain information on hospital foundations. However, during our 1991 audit we identified 143 hospitals which had foundations. Financial statements obtained by us from 102 foundations indicated total financial resources of \$459 million of which approximately 16% was restricted by donors.

In 1991 we reported that hospitals received additional Ministry funding even though they either had unrestricted funds in their foundations or had previously transferred operating funds to their foundations. We recommended that the Ministry obtain foundation financial statements and consider the hospital's total financial resources before finalizing any funding decisions.

The Deputy Minister's response indicated that the issue of the relationship of foundations to hospitals, including the issue of transfer of funds between hospitals and foundations, is under consideration as part of the review of the *Public Hospitals Act*.

The 1992 report on the review of the *Public Hospitals Act, Into the 21st Century*, recommended that the Ministry should define in legislation the conditions within which hospital foundations, or other separate corporations of the hospital, can carry out their activities. Because new legislation was not drafted, the Ministry reviewed current legislation and noted that a policy statement may be sufficient to obtain foundation statements. The Ministry has not implemented a policy requiring the submission of foundation financial statements.

Consequently, the Ministry is still not in a position to monitor foundations and determine the related hospitals' total financial resources before providing funding.

### RECOMMENDATION:

**The Ministry should clarify the relationship between hospital foundation funds and hospital funding.**

### MINISTRY RESPONSE:

***The Ministry will develop a policy to clarify the relationship between hospital foundation funds and hospital funding.***

## CAPITAL GRANTS AND LOANS

The Ministry provides capital grants or loans to hospitals for the construction of new health care facilities or for the renovation of existing facilities. The Ministry generally subsidizes two-thirds of the eligible capital cost of approved projects. However, the Regu-

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lations to the *Public Hospitals Act* allow for funding by the Ministry up to the total cost of a project.

According to the regulations, a grant or loan may be paid in a lump sum or in instalments. For larger projects the Ministry's policy is to flow funds based on the projects percentage of completion or projected cash flow. A 5% holdback is retained by the Ministry to be paid on completion and final settlement of the project.

In our 1991 audit, we reported to Ministry management that the Province potentially lost \$900,000 in interest revenue because half of the payments we tested were made before the hospital had incurred the cost. We recommended that either advance payments should not be made or, if they were, the Ministry's funding commitment should be decreased by the interest earned on the pre-flowed funds.

The Deputy Minister responded that the interest earned on pre-flowed capital grants would be taken into account upon settlement of the individual projects. Hospitals would be requested to maintain a record of the interest earned on the funds advanced by the Ministry.

During the 1991/92 and 1992/93 fiscal years, 175 hospitals received capital grants totalling \$290 million. We selected 15 large capital projects which received 50% of this funding and noted:

- all grants tested were approved within the funding limits set by regulation and Ministry policy;
- for 9 of the 15 projects tested, the Ministry did not comply with its policy and had paid hospitals amounts in excess of the costs incurred up to the date of the payment. For example, \$18 million was paid toward the cost of a project on the last day of the 1992/93 fiscal year. This advance increased the payments to 47% of the project's estimated cost yet the project was less than 15% complete;
- the Ministry had informed all recipients of funding advances that they must keep track of interest earned and return this money to the Ministry. For the two projects tested that had been completed, the Ministry relied on the hospitals' calculation of interest earned without verification.

#### **RECOMMENDATIONS:**

**The Ministry should revise its funding policy to deal more effectively with capital funding in advance of capital costs incurred by hospitals.**

**Existing advances should be recorded by the Ministry and the calculation of interest earned should be verified prior to recovery in the final settlement of these projects.**

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## MINISTRY RESPONSE:

*As part of the Ministry initiative to streamline and simplify the capital planning process, the Regulations under the Public Hospitals Act were consolidated in July 1993 under the new capital grants and loans Regulation. Section 5 of Regulation 459/93 allows a capital grant to be made in instalments before or after the costs are incurred. The capital funding policies are being revised to support a more streamlined approval and funding process.*

*Hospitals are now required to keep records on interest earned on capital funds that have been advanced once a project is under construction. The hospital records are reviewed by the Ministry at the time of settlement.*

## MINISTRY'S AUDIT BRANCH

The Management Board of Cabinet Directive on Internal Auditing states that the objective of internal auditing is to assist the deputy minister and other Ministry personnel in the effective discharge of their responsibilities. Internal auditing accomplishes this by objectively evaluating the effectiveness of controls to provide assurance that controls are satisfactory. The scope of internal auditing must be comprehensive in nature and encompass both financial and management controls.

We noted during our 1991 audit that the Audit Branch had not carried out any audits of the Ministry's monitoring of hospital operations which account for over 45% of the Ministry's total expenditures.

We also noted during our 1993 audit of the Ontario Health Insurance Plan that the Audit Branch had not developed a multi-year plan and several high risk areas had not been covered by the Branch. We recommended that the Audit Branch prioritize all areas of the Ministry which require audit attention and adopt a multi-year plan of potential audits. The Deputy Minister responded that the current approach, whereby the Audit Committee provides direction to the Audit Branch, ensures that all high risk areas are covered.

During our current audit, we again found that audits had not been carried out by the Audit Branch on the Ministry's monitoring of hospital operations.

From discussions with branch staff and a review of the work performed, we noted the following:

- The Branch's 1993 time budget for 24 audit staff allocated 33,800 person hours to various audits. Only 150 hours or less than 1% of this time was allocated to audits of public hospitals. Given that financial risk is a function of the dollars involved, we question the appropriateness of not auditing the Ministry's largest program; and
- During the calendar years 1992 and 1993, the Branch issued 146 audit reports. The majority of these audits did not encompass Ministry financial and management controls. Over 75% of these reports related to audits of financial and management controls or special investigations of grant recipients other than hospitals.

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## RECOMMENDATIONS:

The Audit Branch should prioritize, based on a risk assessments, all areas of the Ministry requiring audit attention and develop a multi-year audit plan for approval by the Audit Committee.

The Audit Committee should ensure that audits are directed to areas of greatest risk to the Ministry.

## MINISTRY RESPONSE:

*The Ministry would like to thank the Provincial Auditor for his comments regarding the operation of the Audit Branch in the Ministry of Health. This supports the recent agreement of the Deputy and the ADMs at the Deputy Ministers' Committee that the Audit Committee should be more involved in the setting of priorities for the Ministry internal audits.*

*The Ministry's Audit Committee and Audit Branch are very aware of the requirement that internal audits be at least in part based on risk assessments in all areas of the Ministry of Health. The Audit Branch, in consultation with the Audit Committee in the 94/95 fiscal year will review the Transfer Payment Accountability Framework in at least two major program areas of the ministry. One of these will be the Institutional Health Division which encompasses hospital operations.*

*Accordingly, the Audit Committee will discuss various mechanisms that can be put in place to implement the Provincial Auditor's recommendation that "the Audit Branch should prioritize, based on risk assessments, all areas of the ministry requiring audit attention and develop a multi-year audit plan for approval by the Audit Committee". Furthermore, the Ministry will also attempt to support that "the Audit Committee should ensure that audits are directed to areas of greatest risk to the ministry", with the understanding that this will be done within the context of available resources.*

# Rent Regulation Program

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The Ministry of Housing's Rent Regulation Program has two components: Rent Control Operations and the Rent Review Hearings Board. Rent Control Operations administers the *Rent Control Act*, which is intended to protect tenants from excessive rent increases and to preserve and maintain adequate rental housing in Ontario. It also assists municipalities to administer the *Rental Housing Protection Act*, which regulates conversions and demolition of rental accommodations as well as major renovations and repairs.

The responsibilities of Rent Control Operations include:

- resolving applications for rent revisions and related matters filed by landlords and tenants;
- providing information to the public on all residential tenancy matters, including the *Landlord and Tenant Act*;
- administering the Rent Registry;
- reviewing and recommending appropriate action concerning applications made to municipalities by landlords for exemption under the *Rental Housing Protection Act*; and
- abiding by the *Statutory Powers Procedure Act* for the conduct of hearings.

Rental information on over 700,000 of the more than 1.2 million rental units in Ontario is stored on the Rent Registry.

As of March 31, 1994, adjudication and inquiry services were provided by some 320 staff located in 20 area offices throughout the province. The Toronto head office employed a further 80 staff—including the Director of Rent Control—responsible for overall program management and financial co-ordination, the Rent Registry, responding to complaints regarding maintenance standards, and the Rental Housing Protection Program unit. Four regional offices employed about 50 staff providing program and administrative support to area offices. Staffing requirements and organization were under review as part of a Ministry-wide re-organization project aimed at integrating and streamlining both rent control and social housing programs.

Total expenditures for Rent Control Operations for the 1993/94 fiscal year were \$26 million.

## OBJECTIVES AND SCOPE

Our audit objectives were to assess whether procedures and controls were satisfactory to ensure the program is delivered in a cost-effective manner and in accordance with the

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requirements of the *Rent Control Act*, and whether there were satisfactory procedures to measure and report on the effectiveness of rent regulation programs and services.

Our audit was conducted at the Ministry's head office and several area and regional offices.

## AUDIT OBSERVATIONS

### EFFECTIVENESS MEASURES

We concluded that procedures in place to measure and report on the effectiveness of rent regulation programs and services were not satisfactory.

Prior to passing the new *Rent Control Act*, approximately one million tenant households and 20,000 landlords were contacted during the consultation process. Also, a number of public meetings were held across the province and several sets of public hearings were conducted. In addition, meetings were held with Ministry staff in the rent review area, who were also requested to submit their views in writing.

Since the introduction of the Act in August 1992, insufficient measures have been put in place to assess the effectiveness of the program. Program results are currently reported monthly as well as on an ad hoc basis, but primarily in terms of activity, such as the number of applications received, processed, and outstanding.

While these measures are useful for managing workloads, they are not useful for measuring effectiveness in meeting stated goals and objectives. For example, it would be useful to know the extent to which landlords charge tenants less than the maximum allowable rent as one possible indicator of program relevance.

In addition, with reduced private sector rental construction in recent years, the average age of existing rental stock is increasing. As the rental stock ages, the risk of non-compliance with maintenance standards increases. Therefore, indicators of the extent of compliance become increasingly important if legislated objectives are to be met.

Although program staff are primarily responsible for measuring their performance in administering the *Rent Control Act*, broader aspects of program performance that could be considered for measurement by the Ministry include:

- the effect of rent controls on the quality, price and state of repair of affordable rental housing in the province;
- the extent of public awareness of the *Rent Control Act*, including maintenance standards; and
- the impact, both intended and unintended, of the program on other housing assistance programs, such as shelter allowances, rent supplement expenditures and social housing.

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## RECOMMENDATION:

The Ministry should carry out periodic evaluations of the effectiveness of the Rent Regulation Program in meeting legislated objectives and in assessing its impact on other housing assistance programs.

## MINISTRY RESPONSE:

*We agree that it is good management practice to measure program effectiveness and thus reinforce the accountability of the Ministry in implementing any program.*

*Two objectives of the Rent Control Act that have been publicly and consistently stated are to cap rent increases and thus provide certainty to tenants, and to encourage landlords to maintain their buildings.*

*Maximum rents have been capped at 3% above guideline annually. Building maintenance is encouraged, and improved through the mechanisms provided in the Rent Control Act. This is achieved through provincial inspections on written request of tenants in areas covered by the provincial standard, and the issuance and monitoring of Orders Prohibiting Rent Increases where municipal and provincial work orders are not complied with.*

*Formal, regularly scheduled, semi-annual meetings are held with landlord and tenant groups for the purpose of assessing the efficiency and effectiveness of the legislation and its implementation, and to discuss the impact of proposed regulations on the clients. Policy, Legal and Operations staff attend these sessions and issues that are identified by clients are looked into and resolved where possible.*

*The Rent Registrar is currently working with Canada Mortgage and Housing Corporation to compare their data on actual rents charged with the maximum rents permitted according to the Rent Registry. This will provide information for a specific time only.*

*This province and other jurisdictions have had difficulty in measuring the impact of rent controls on other programs or on the supply of housing because rent controls cannot be isolated from the rest of the socio-economic environment. Research has been contradictory, for example the Thom Commission Report as compared to the work by David Hulchanski, Peter Dreier and others. We continue to search for ways to perform such evaluations.*

## APPLICATION PROCESSING

We concluded that the Ministry has satisfactory procedures and controls to ensure compliance with the application processing requirements of the *Rent Control Act*. We have some recommendations to improve administration and cost effectiveness.

The *Rent Control Act* introduced many significant procedural changes to previous legislation governing rent regulation. Rent officers are provided quasi-judicial powers to review and make decisions on applications. Procedures are governed by both the Act and the *Statutory Powers Procedure Act*. Rent officers receive applications from the following sources:

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- from landlords for "above guideline increases" to a maximum of 3% for certain eligible expenditures, such as extraordinary operating cost increases for heat, hydro, water and/or municipal taxes;
  - from tenants for rebates of rent paid in excess of the allowable maximum rent for their units, or illegal charges associated with tenancy;
  - from tenants for reductions to their rent because of inadequate maintenance, reduced services or reductions in the landlord's operating costs; and
  - from tenants or landlords to determine various issues regarding the maximum allowable rent for a rental unit and whether a unit or complex is exempt from the Act.

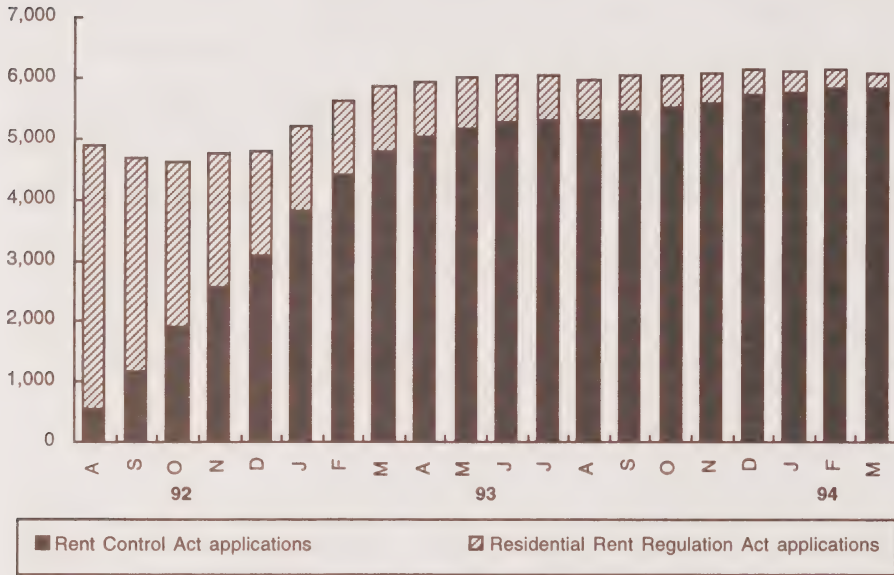
Landlords and tenants must have their applications reviewed by a Rent Officer, who can award amounts limited to the monetary jurisdiction of the Small Claims Court (currently \$6,000), plus any interest on that amount. Where an application is made for a higher amount, tenants may by notice abandon the excess and seek an order from the Rent Officer, or alternatively file a claim through the provincial court system for the entire amount.

Applicants have the right to request a hearing, a pre-hearing conference or an administrative review. A hearing is required for certain applications, such as when any party requests it, or when the chief rent officer directs that one be held. Where an administrative review has been selected, the application is processed in a quasi-judicial manner without the formalities of a hearing.

Any person affected by an order of a Rent Officer may appeal to the Divisional Court but only on a question of law. Otherwise, there is no right to appeal the Rent Officer's order or decision. However, if requested, a designated chief rent officer can determine whether serious errors occurred in orders from rent officers, and if so, reconsider the order.

The Ministry expected that approximately 2,500 to 3,000 applications would be outstanding at any given time once the number of applications received each month had stabilized. However, as of March 31, 1994 there were approximately 6,200 applications outstanding affecting over 95,000 rental units. This amount has grown from just under 5,000 applications outstanding under the previous Act as of August 1992 (see Chart 1).

Chart 1: Outstanding Applications, August, 1992 to March, 1994



Significant effort has been devoted to processing these earlier applications because any orders issued under the former Act may affect applications under the current Act. In addition, reducing the number of outstanding applications since the Act was introduced has been difficult while staff were being hired and trained in the procedures required under the new legislation. Some 20 months after the legislation was introduced, staff were still only able to resolve fewer than 600 applications per month (Chart 3), which was about the same as the number of applications received each month (Chart 2).

Chart 2: Rent Control Act Applications Received  
August, 1992 to March, 1994

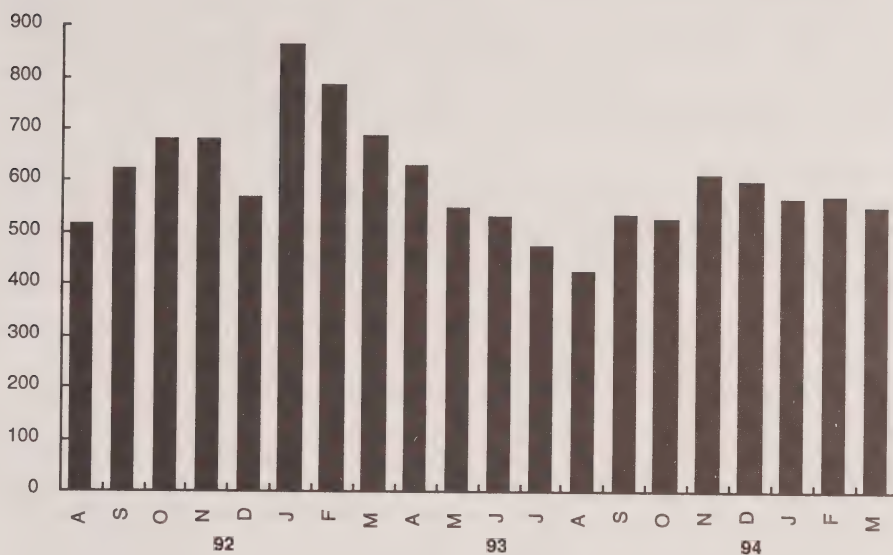
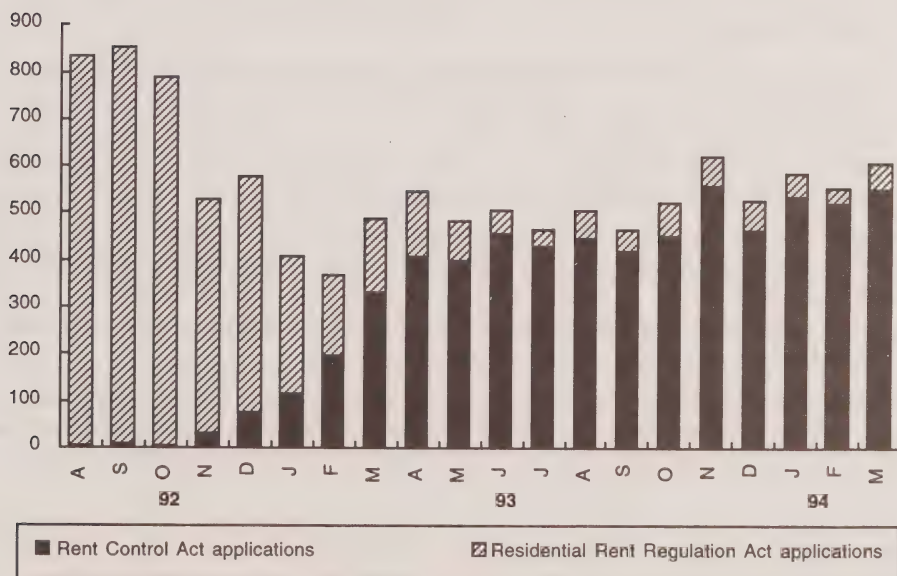


Chart 3: Applications Resolved, August, 1992 to March, 1994



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## PROCEDURAL REQUIREMENTS

The complexity of the legislation results in a fairly lengthy process for considering applications. For example, procedures require that all tenants within a rental complex be notified if a complaint is received that could affect all of them. Minimum times for notifying such tenants and filing notices of hearings are also legislated. As a result, even a simple application requires a minimum of four months to resolve. The average time for area offices to process an application, including more complex ones, is much longer.

Over 40% of applications on hand as of March 31, 1994 had been outstanding for over six months. The total time required after an application is submitted is usually significantly more than this because applications often require more information from the applicant before being considered and are not counted as received until all necessary information is submitted.

Management advised us that because the Act limits the applicants' right to appeal orders, the legislation attempts to ensure all matters are fully considered before orders are rendered. As a result, the procedures used for some applications can be cumbersome and onerous.

In December 1993, the Ministry completed a detailed operational review, which included application processing procedures. The operational review team identified eighteen areas where procedures or systems could be improved: five would require legislative changes for streamlining application processing procedures; fourteen related to internal procedures that inhibit efficiency; and seven related to computer system and management reporting inadequacies. By the completion of our audit, internal committees had been established to further evaluate all recommendations and their implementation.

In addition, the Ministry was in the process of obtaining proposals from consultants to develop a plan for an Integrated Rent Control Project, which had been previously identified in a Rent Control Information Management Strategic Plan completed in March 1993. The project is intended to:

- integrate all functions performed by the three existing rent control information systems;
- automate manual systems;
- eliminate duplicate data entry;
- provide complete rental building profiles; and
- support the streamlining of Rent Control Operations to help meet expenditure control targets and improve the consistency, quality and timeliness of information on landlords and tenants.

The total cost for the project is estimated at \$1.7 million to be spread over four years, which is expected to be recovered by staff reductions.

We concluded that a number of positive initiatives were underway to streamline procedures, increase efficiency and reduce costs. While legislative and system changes may take some time to implement, several procedural changes can be made more quickly.

## ALTERNATIVE RESOLUTION

The legislated procedures in use at area offices are essentially the same for all applications. For example, applications for small amounts may result in a hearing rather than the less costly administrative review. While the Ministry has not recently calculated the average cost to process applications either by hearing or by administrative review, we estimate that it is at least \$1,000 per application. However, the Act does not provide for applications that are uncomplicated or involve small amounts to be resolved by alternative, faster and less costly procedures.

The Ministry had only recently begun collecting and summarizing information on the monetary amount of orders issued by rent officers. Based on over half of the approximately 3,500 orders issued under the Act since August 1992, average monetary awards were as follows:

Type of Application	Area Offices Averages		Provincial
	Lowest	Highest	Average
Landlord rent increases granted <sup>(1)</sup>	6.3%	7.9%	7.0%
Lump sum rebates to Tenants:			
Illegal Rent Charged above the Maximum	\$933	\$2,508	\$1,770
Illegal Charges	\$21	\$977	\$197
Rent Reduction	\$121	\$1,047	\$411
Monthly Rental Rate Reduction:			
Chargeable Rent	\$10	\$276	\$77
Maximum Rent	\$3	\$78	\$35

(1) Includes annual guideline increase and Above Guideline Increase.

There have been approximately 200 orders affecting 3,500 units for landlord applications and over 3,300 orders affecting 6,200 units for tenant applications. Tenant applications concerning illegal rents represent about 75% of all orders issued. While the majority of orders result in awards for significant amounts, some are for relatively small amounts. In addition, over 30% of all *Rent Control Act* applications received are subsequently withdrawn.

Further, staff are generally not encouraged to assist tenants or landlords to resolve their differences without a formal application. Alternative resolution mechanisms do not exist even though the Act does not prevent the use of such mechanisms.

No guidance has been provided for determining when alternative resolution methods might be encouraged. Without guidelines in this regard, rent officers and staff may be reluctant to challenge or discourage an application for fear of being accused of unfairly treating an applicant.

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## RECOMMENDATIONS:

In order to make application processing more cost effective and timely, the Ministry should:

- pursue legislative changes that would permit less costly and more expeditious procedures for applications that are less complex or involve small amounts; and
- provide guidance to assist staff to decide under what conditions alternative resolution methods should be encouraged.

### MINISTRY RESPONSE:

*The Operational Review identified legislative and regulatory changes that could improve the efficiency of the Act. Given the current heavy legislative agenda, the Ministry has been informed that amendments to this piece of legislation are not possible at this time.*

*Regulatory changes are being pursued.*

*Guidelines exist to assist rent officers in discontinuing applications, and are incorporated in the Procedures Manual. This decision to discontinue an application can only be made by a Rent Officer after a review of all evidence before him/her. Due to the way in which the legislation is written, it is almost impossible to determine whether an application has merit or not, until the process is almost complete.*

*There are legal requirements in the Rent Control Act and in the Statutory Powers Procedure Act that direct our procedures.*

*We will begin to explore ways in which alternative dispute resolution may further assist in managing our workload.*

## PERFORMANCE TARGETS

The Management Information System provides monthly and ad hoc management reports to monitor, forecast and compare workloads. Extensive statistics are generated with respect to:

- the number of applications received and processed;
- work orders and Orders Prohibiting Rent Increases issued and outstanding against landlords;
- volume of public inquiries; and
- public education initiatives.

While these monthly activity reports are useful, performance targets used to evaluate staff productivity need to be better defined. Rent officers, who work with teams of support staff, are monitored based on the number of orders issued. A target of ten orders per month has been established for each team. However, this target does not differentiate between the types of applications and the varying amount of staff time necessary to resolve each type. For example, an application from a landlord for an Above Guideline Increase normally takes several times as much staff time as an application made by a tenant for an illegal charge or deposit. These landlord applications require even more time because of inadequacies in the software used to perform the often complex calculations.

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In addition, applications that are withdrawn by the applicant prior to an order being issued are not taken into account for performance target purposes even though a considerable amount of staff time may have already been spent on them.

In order to meet their targets, area offices have been giving priority to applications that normally require less staff time. Over 50% of landlord applications for an Above Guideline Increase were outstanding for over one year.

#### **RECOMMENDATION:**

**To improve monitoring of application processing workloads and results, the Ministry should develop revised targets that better reflect the varying amounts of time required to process each type of application and reflect the impact on workload of withdrawn applications.**

#### **MINISTRY RESPONSE:**

*We agree that there is a need to revise targets for application processing. With any new legislation modifications are expected to reflect actual experience.*

*Rent Control Programs Branch will continue to monitor workload resolution and the results of changes to the process to better estimate achievable and realistic targets. A modified computer program to assist in application processing is being field tested and we expect to implement program wide by July. This, coupled with newer, faster equipment is expected to speed up resolution. Procedural and regulatory changes resulting from the Operational Review are still being implemented which are also expected to streamline procedures. The targets will therefore be revised at a later time to most accurately reflect the workload and procedures. This will include a review of withdrawals, and their impact on targets.*

## **USER FEES**

Under the *Rent Control Act* and *Landlord and Tenant Act*, fees may be charged for providing copies of forms, notices or documents on file. For example, fees can be charged for Rent Registry requests from the public for names of landlords and where tenants or landlords request information about 50 or more units at a time. In 1992/93 and 1993/94, area offices collected fees of approximately \$21,700 and \$33,900 respectively. These fees are relatively small in relation to the costs of services provided.

Fees may be appropriate to recover some of the costs of delivering the program, to discourage frivolous applications, to allocate the costs to users who benefit from the services, or to penalize those who increase costs by failing to comply with legislated requirements. For example, unlike other regulatory programs, no fees are charged for registration and applications processing.

During our audit, management was preparing a proposal to charge additional user fees commencing in 1994/95 in accordance with the government's non-tax revenue generation initiative.

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As previously stated, over 30% of all *Rent Control Act* applications received are subsequently withdrawn. Application fees may result in reducing the number of such applications and associated area office staff time spent in preparing for the hearing or administrative review.

#### **RECOMMENDATION:**

**We encourage the Ministry to implement user fees to help recover costs and reduce subsequent withdrawals of applications or instances of non-compliance.**

#### **MINISTRY RESPONSE:**

*Few, if any applications have been found to be trivial or frivolous.*

*We do agree that user fees could be a deterrent that could stop trivial or frivolous applications, and recover some of the costs of implementing rent control. It could, however, also act as a deterrent to tenants who wish to file applications.*

*There is no legislative authority in the Rent Control Act to charge fees for filing applications. This was, however, reviewed as part of the non-tax revenue proposals in 1993.*

*It should be noted that there are sections in the Act that permit regulations for charging fees for registry information and for copies of documents.*

*These have been implemented and the fees for Registry information are being increased as part of the non-tax revenue initiative.*

## **RENT REGISTRY**

We concluded that, in order to ensure a complete and accurate database of legal rents controlled by the Act, the Ministry should expedite the completion of rent registration on the Rent Registry.

The Act requires that the program establish and maintain a Rent Registry of the maximum rents that landlords can lawfully charge their tenants for private residential rental units. As such, it is important to ensure complete and accurate information both for the public and for program administration. Registry staff are responsible for ensuring compliance with registration requirements, investigating registered and current rents, and referring cases for prosecution.

As part of registration, registry staff must subsequently notify landlords and tenants in writing to confirm maximum rents. Upon notification, tenants and landlords have up to six months to challenge these maximum rents by filing an application to an area office.

Once a maximum rent has been confirmed, registry staff annually update it by the amount of the annual rent control guideline or as a result of any rent setting orders. The rent control guideline for 1993 was 4.9%, which is the amount that landlords can increase maximum rents without approval from a Rent Officer.

The province-wide computerized rent registry that existed under the former Act formed the basis for the new Rent Registry. Landlords of complexes with seven or more units who had not registered under the former Act were requested to register rents by December 1, 1992. The rent to be registered was generally the rent charged to tenants on July 1, 1985, from which maximum rent could be calculated.

The initial registration and confirmation of maximum rents has been the principal activity of the Rent Registry. As a result of similar procedures under the former Act, rents for almost 300,000 rental units were settled through the notification process and resulting applications. In addition, the maximum rent for over 385,000 units had been confirmed by orders issued prior to the introduction of the *Rent Control Act*. While almost all of the maximum rents on the Registry have been confirmed, we were advised by the Ministry that over 13,500 notifications to confirm rental information have still not been issued to tenants in complexes with seven or more units.

Registry staff intend to require all landlords of complexes with four, five and six units to register rents that were in effect as of October 1, 1990. This will be done by sending them a "notice to register". In order to even out the workload, notices will be sent at the rate of approximately 10% per month so that all notices will be sent by the end of calendar 1994. Once notified, landlords have 60 days to register.

The Act does not require landlords of complexes with less than four units to register. This means that as many as 40% of the rental units in the Province may therefore never be registered. However, the landlord will be required to register if a tenant requests that the complex be registered and a landlord must register in order to apply for a rent increase above the guideline.

During the registration process for complexes with seven or more units, landlords and tenants were requested to challenge rents that were up to seven years old. Finalizing maximum rent was therefore difficult and time consuming where landlords had poor records or where tenants had moved. Under current plans for complexes with four, five and six units, tenants and landlords will be sent notifications of the rent recorded in the Rent Registry well into 1995, at which time the registered rents being reported will be five years old. We are concerned that delays in determining maximum rent for the more than 75,000 units in complexes with four, five and six units could result in similar problems to those experienced in the past.

The Act permits deadlines for landlords to register units and for Rent Registry staff to notify landlords to be prescribed in regulations to the Act. However, deadlines have not been formally established for the registration of most complexes with four to six units.

#### **RECOMMENDATIONS:**

**To ensure the Rent Registry contains accurate and complete information on rental units in the province, the Ministry should:**

- **send out the remaining tenant notifications to complete confirmation of rental information for complexes with seven or more units as soon as possible; and**
- **prescribe dates for notifying and registering landlords that own complexes with four, five and six units.**

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## MINISTRY RESPONSE:

*The Ministry agrees that its principal objective for the Rent Registry is to ensure that it contains accurate and complete rent information.*

*The change in legislation from Residential Rent Regulation Act to Rent Control Act required substantial changes in the content of notices and new rules for calculating maximum rent. As well, major changes to computer systems were required.*

*As soon as is feasible, we will proceed to issue the remaining notifications.*

*Experience has shown that prescribing a filing date for registrations does not result in greater efficiency or compliance. We have taken a phased-in approach to requiring registration of complexes with four to six units, which is underway.*

*The registration and verification of rents on the Rent Registry remains a priority.*

## MAINTENANCE STANDARDS

We concluded that the Ministry could improve adherence to maintenance standards by better tracking and enforcement of work orders issued to landlords.

The *Rent Control Act* and regulations provide for minimum maintenance standards, including references to applicable building, health and safety codes, to ensure that all private rental residential units in the Province are maintained at an acceptable minimum standard. Further, the Act requires the Director of Rent Control to:

- investigate cases of alleged failure to comply with the Act or orders made under it;
- monitor compliance with the Act; and
- ensure that the prescribed maintenance standards are being complied with.

The Act also requires the Minister to prosecute an alleged failure to comply with the Act or an order made under it, where circumstances warrant.

Municipalities and Rent Control Operations receive tenant complaints concerning serious maintenance problems, such as structural defects, inadequate heating, and fire safety concerns. Municipalities with property standards by-laws and inspectors conduct their own inspections. Where a tenant complaint is received by the Ministry from a municipality lacking a property standards bylaw, Rent Control Operations staff can perform a provincial inspection in accordance with the minimum maintenance standards. The Ministry has full or joint responsibility for enforcing compliance in about 370 municipalities containing over 70,000 rental units.

Inspections may result in either a municipal or provincial work order against the landlord. A landlord may appeal a municipal work order to the Property Standards Committee and appeal a provincial work order to a Rent Officer. Should either work order remain outstanding beyond the compliance date, an Order Prohibiting Rent Increases is registered on the Rent Registry and remains until the work order has been complied with. The Ministry began issuing and registering Orders Prohibiting Rent Increases in November, 1992. Since then, over half of the more than 6,500 municipal and provincial work orders issued and received by Area Offices have resulted in an Order Prohibiting Rent Increases.

The following table summarizes the status of all Orders registered as of March 1, 1994.

	Orders Prohibiting Rent Increases					
	Municipal		Provincial		Total	
Issued and Removed	1,286	40%	112	29%	1,398	39%
Issued and Still in Effect:						
Less than 6 months in effect	832	26%	93	25%	925	25%
More than 6 months in effect	1,111	34%	177	46%	1,288	36%
Total Issued and Still in Effect	1,943	60%	270	71%	2,213	61%
Total Issued	3,229	100%	382	100%	3,611	100%

About one third of the Orders Prohibiting Rent Increases arising from municipal work orders have been outstanding for more than six months. Enforcement of a municipal work order is the responsibility of the municipality. Our discussions with area office staff determined that few municipalities force landlords to comply with work orders. However, we noted one local municipality that had recently implemented procedures to enforce work orders still outstanding after the compliance date. These procedures included arranging for the required work to be completed and adding the cost of the repairs to the landlord's municipal taxes. This municipality had very few outstanding work orders.

The Act requires municipalities to forward work orders that have not been complied with to the Ministry. However, work orders have only been received from 74 municipalities, which represent fewer than 20% of the municipalities that conduct their own inspections.

With respect to Orders Prohibiting Rent Increases resulting from provincial work orders, almost half have been outstanding for more than six months. There were insufficient procedures in place to follow-up or enforce provincial work orders that had been outstanding for a long period. In addition, the Ministry has issued Orders Prohibiting Rent Increases in 108 municipalities, or less than 30% of those in which they are responsible for enforcement. The Ministry had not determined whether there were justifiable reasons why no complaints have been received from tenants in the remaining municipalities.

### RECOMMENDATIONS:

**To better ensure legislated responsibilities for maintenance standards are met, and to encourage more timely adherence to the maintenance standards required by the *Rent Control Act*, the Ministry should:**

- encourage local municipalities to implement better work order follow-up procedures and investigate alternatives for encouraging prompt compliance;
- investigate the reasons why no outstanding work orders have been received from over 80% of municipalities that conduct their own maintenance standards inspections;
- develop procedures to follow up and enforce provincial work orders that remain outstanding beyond the compliance date; and

- investigate the reasons why no complaints have been received from tenants in many municipalities within provincial jurisdiction for enforcement.

#### **MINISTRY RESPONSE:**

*The choice was made with the development of the legislation not to duplicate requirements placed on the municipalities under the Planning Act and the Building Code Act.*

*Municipalities are accountable for the enforcement of their property standards by-laws and work orders. Although required by the Rent Control Act to send outstanding work orders to the Ministry, where the municipalities do not do so, the Ministry has no leverage to force them to do so. Area Managers keep contact with municipalities in their areas to encourage participation and compliance with the Act.*

*The Ministry cannot be accountable for the number of inspection requests received from areas of provincial jurisdiction because the process is complaint driven. The legislation provides no authority to initiate an inspection, but the Ministry undertakes inspections when invited to do so through the written complaint of a tenant.*

*When the Rent Control Act was first proclaimed, there was a massive advertising campaign for a period of eight months, on television, posters, etc. to advertise the new legislation. To create public awareness of enforcement, focus was placed, in particular, on the maintenance provisions. This information is also available through our public brochures, available throughout the province, and in Northern Affairs offices in the more remote areas.*

*The Ministry has begun follow-up on outstanding provincial work orders and on the resulting Orders Prohibiting Rent Increases (OPRIs). Monitoring of buildings with outstanding OPRIs had previously been occurring on a complaint-driven basis, and has now moved into a proactive stage. Rent Control legislation provides the authority for both monitoring that rent increases are not charged while an OPRI is in effect, and for the prosecution of landlords who fail to comply with provincial work orders.*

## **RENT REVIEW HEARINGS BOARD**

The Rent Review Hearings Board is an independent appeal body created under the former *Residential Rent Regulation Act*. The former Act gave tenants and landlords the right to appeal rent review decisions to the Board. The *Rent Control Act* (1992) repealed the *Residential Rent Regulation Act* and *Residential Rent Regulation Amendment Act*, allowing these Acts to continue only until all applications, appeals and court proceedings made under or pursuant to the previous legislation are finally disposed of. As a result, the Board's activities have been limited to adjudicating appeals, dealing with outstanding court matters and winding down its operations. Board expenditures were \$5.9 million in fiscal 1993/94.

We assessed whether the Rent Review Hearings Board's wind-down plans and actions were being expeditiously carried out.

The Board began winding down its activities upon proclamation of the new Act, but continues to hear those appeals currently on file, as well as any which may result from residual first-level rent review orders issued under the *Residential Rent Regulation Act*. It also

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conducts any rehearings that may be required. As of March 31, 1994, there were 153 active appeals in process covering over 2,700 rental units of which 23 appeals cannot proceed until related appeals to the Board or Divisional Court are resolved.

In the past, services were provided through four regional offices located in Sudbury, Ottawa, London and Toronto, supported by the Board's head office in Toronto. As of April, 1994, all regional offices had been closed on a phased basis as the bulk of their workload was completed. Head office now co-ordinates all residual appeal activity using Rent Control or other local hearing rooms throughout the Province. The Board's regional offices and assets have been or are planned to be transferred to Rent Control Operations. There were 26 members and staff on the Board's payroll as of April 1994 compared to 127 as of August 1992. Most displaced staff have assumed new responsibilities in Rent Control Operations.

Current plans are for operations to cease by the end of November 1994 when the majority of its workload should be completed. Any residual appeals will be administered by rent officers with Board appointments and staff from Rent Control Operations.

We concluded that satisfactory "wind down" plans are in place for the Rent Review Hearings Board and activities were being carried out expeditiously.

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## MINISTRY OF NATURAL RESOURCES

# Forest Management

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Ontario's forest covers an area of about 80 million hectares. Approximately 88% of the forest is owned by the Province.

The goal of the Ministry of Natural Resources is to contribute to the environmental, social and economic well-being of Ontario through the sustainable development of natural resources. The Ministry's objectives include:

- ensuring the long-term health of ecosystems by protecting and conserving the province's valuable soil, aquatic resources, forest and wildlife resources, as well as their biological foundations;
- ensuring the continuing availability of natural resources for the long-term benefit of the people of Ontario; and
- protecting the natural heritage and biological features of provincial significance.

The Operations Program of the Ministry is responsible for the integrated and efficient delivery of all Ministry programs, including resource management and protection. The Ministry's forestry management activities are delivered through this program.

The provincially owned portion of the forest is divided into 89 distinct management units, each of which falls into one of three categories:

- 28 Forest Management Agreement Units
- 47 Crown Management Units
- 14 Company Management Units

Although harvesting the Province's forest has always been important economically, there is an increasing appreciation of the forest as a shelter for other plant and animal life and as a key component in maintaining the health of our entire ecosystem. Consequently, the emphasis of the Ministry is to maintain a more complete range of values including forest sustainability and biodiversity.

Organizational changes within the Ministry have combined forest management with other resource management and protection activities. Accordingly, the Ministry no longer separates the expenditures for forestry. However, based on discussions with Ministry staff, 1993/94 expenditures for forest management were estimated at approximately \$200 million, including approximately \$100 million for silvicultural (regeneration) activities.

### FOREST MANAGEMENT AGREEMENT UNITS

Forest Management Agreement Units are administered under a contractual agreement between forest products companies and the Ministry. Under these agreements, the companies are responsible for forest planning, harvesting and renewal in return for the Province conveying to them specific harvesting rights. The agreements cover a 20-year term, and

are renewable every five years for a further 20 years, subject to the company meeting its obligations.

The Ministry pays for the cost of silvicultural work, while forest planning costs are borne by the company.

The 28 Forest Management Agreements currently in force cover approximately 70% of the productive provincially owned forest lands.

## **CROWN MANAGEMENT UNITS**

The Ministry is responsible for forest planning, management and regeneration including associated costs on Crown Management Units. Harvesting in these units is usually undertaken by smaller companies on short-term permits and licences (normally up to five years) granted by the Province.

## **COMPANY MANAGEMENT UNITS**

The responsibility for the administration of Company Management Units is shared between the Ministry and prime licensees. While the licensees are legally responsible for forest planning and harvesting, the Ministry is responsible for contracting and paying for the cost of silvicultural treatments and the public consultation aspects of the planning process.

## **FOREST MANAGEMENT PROCESS**

For each management unit, a five-year Timber Management Plan is prepared by or under the supervision of a Registered Professional Forester. The Plan must be approved by the Ministry before it comes into effect.

### **Significant Components of a Timber Management Plan**

- a physical description of the forest including the type and age distribution of trees as well as areas of special concern.
- a review of operations during the previous five years.
- current timber management objectives, issues and problems.
- determination and allocation of maximum allowable forest depletion based on forest inventory and timber management objectives for each management unit.
- silvicultural ground rules which prescribe silvicultural treatments for various site conditions.
- identification of forest regeneration and maintenance requirements for each area.

Preparation of a Timber Management Plan takes approximately three years and includes extensive review and public input prior to completion. An annual work schedule is pre-

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pared which identifies the work that is to be undertaken during the year in order to put the Plan into effect. This schedule must also be approved by the Ministry and, except for unforeseen circumstances, should reflect approximately one-fifth of the work required under the Plan.

## OBJECTIVES AND SCOPE

The objectives of our audit were to assess, with respect to Forest Management, whether:

- applicable legislation and appropriate administrative practices were being followed;
- resources were managed with due regard for economy, efficiency and operational effectiveness; and
- program goals were clearly defined and performance was monitored and evaluated on a regular basis.

The scope of our audit included reviewing and analyzing information available at the Ministry's Sault Ste. Marie head office as well as discussions with appropriate staff. In addition, we visited seven district or area offices in three regions and reviewed detailed information with respect to four Forest Management Agreements, three Crown Management Units and one Company Management Unit.

## AUDIT OBSERVATIONS

Our audit was conducted during a period of restructuring and change. The more significant of these changes are:

- the recent report of the Forest Policy Panel which defined potential new directions for long-term forest policy;
- an environmental assessment for timber management on Crown lands in Ontario;
- corporate reorganization and downsizing through which responsibility for forest management has been combined with the Ministry's other mandates; and
- the appointment of a provincial negotiator whose objective is to negotiate a new business arrangement whereby Forest Management Agreement companies assume more financial responsibility for forest renewal in their areas.

Our recommendations complement many of these initiatives which are designed to strengthen forest management in Ontario and to ensure that the Ministry meets its goal of long-term sustainable development of the Province's forest resources.

## SILVICULTURAL FUNDING

The term "silviculture" includes all aspects of regeneration after a site has been harvested, such as site preparation, planting or seeding and tending. As noted previously, the Ministry provides the funds for silviculture.

Starting in 1992/93, Forest Management Agreement funding has been determined using a formula developed in consultation with the forest industry. Previously, funding provided

to individual Forest Management Agreement companies was based on negotiations and historical spending patterns. Under that formula, 70% of the funding to Forest Management Agreement companies is allocated based on the four-year average of area harvested. The remaining 30% is based on each Forest Management Agreement's forest growth rate and site difficulty.

While the formula is a more objective and equitable approach to funding, it does not consider work requirements identified in the individual plans or schedules.

Silvicultural funding for Crown and Company Management Units is determined by the Ministry's internal priority-setting process, again without reference to work requirements under the individual management plans or work schedules.

Our review of actual silvicultural funding during the five years of the most recently completed set of Timber Management Plans for the Forest Management Agreement Units, Crown Management Units and Company Units included in our sample indicated that funding inequities exist both among units in the same category and among different categories.

While Forest Management Agreement Units were funded at between 100% and 115% of Timber Management Plan work requirements, adjacent Crown Management Units received as little as 30% of what they needed. In addition, much of the funding provided in recent years to Crown Management Units has not been ongoing program funding but rather one-time capital funding such as that provided under the jobsOntario Capital program. This has made it particularly difficult for Ministry staff to plan for silvicultural work on Crown units for the coming years.

## WORK PLANNING AND PRIORITY SETTING

Forest Management Agreements require that Timber Management Plans be submitted six months prior to the start of the applicable five-year period and be approved at least two weeks before going into effect. Annual work schedules must be submitted four months prior to the start of the year and be approved at least two weeks before going into effect.

However, final funding is often not approved until part way through the year when the Ministry receives approval for its budget.

Over a five-year period, annual work schedules related to a particular Timber Management Plan should address the targets established and approved in that Plan. However, we found that there were significant differences between the work planned in these two documents. In addition, while actual funding provided by the Ministry was usually insufficient to perform all work planned, neither the Timber Management Plans nor the annual work schedules identified which work should be given priority.

As a result, we found that most forest units planted as many seedlings as possible in the spring of each year. However, other planned work, such as tending which is normally undertaken later in the year, could not be completed due to financial constraints. Timely tending is necessary to ensure that competing vegetation does not impede desirable regeneration. This is usually accomplished through the use of chemical herbicides, although thinning and pruning may also be used.

The following table illustrates planned vs. actual planting and tending in 1992/93 for the Forest Management Agreement Units (FMAs) and Crown Management Units (CMUs) we reviewed:

	Planting (annual average hectares)			Tending (annual average hectares)		
	TMP	AWS	Actual	TMP	AWS	Actual
FMAs	2,510	2,660	3,010	3,850	3,140	2,470
CMUs	635	340	310	690	55	15

*TMP = Timber Management Plan*

*AWS = Annual Work Schedule*

While the Forest Management Agreement Units actually planted more trees than planned under either the Timber Management Plan or annual work schedule, only about 65% of the tending work planned under the Timber Management Plan was actually performed. Similarly, the Crown Management Units planted approximately half of the trees planned under the Timber Management Plan, but only performed 2% of the planned tending work. By not doing tending, significant expenditure invested in planting could be lost. For example, the cost of seedlings, site preparation and planting are a minimum of \$700 per hectare while chemical tending is less than \$100 per hectare. Ministry staff had identified areas that were planted and eventually overrun by competing vegetation due to lack of tending.

## RECOMMENDATIONS:

### The Ministry should:

- allocate silvicultural funding with appropriate recognition to the needs of Crown Management Units;
- relate silvicultural work proposed in the annual work schedule more closely to the approved Timber Management Plan. Where significant differences exist, explanations should be provided;
- provide funding to individual units in accordance with the needs identified in the Timber Management Plan and annual work schedule; and
- prioritize funding and work requirements to ensure that critical functions such as tending receive appropriate attention.

### MINISTRY RESPONSE:

*The Ministry has not undertaken a full silviculture program because of inadequate funding. The Ministry is in the process of initiating silviculture trust funds and/or special purpose accounts. We expect that, over time, this funding mechanism will provide sufficient funds so that the number of hectares regenerated annually will equal the number of hectares harvested annually.*

*There will be sufficient funds in the trust funds and/or special purpose accounts to undertake all silviculture activities as outlined in the approved Timber Management Plan.*

*The first trust fund/special purpose account will be established in 1994 and the trust fund approach to funding silviculture will be completely implemented by 1997. At that point, there will always be enough silviculture dollars available in the trust/special account to undertake the following year's silviculture activities.*

## **PAYMENTS TO FOREST MANAGEMENT AGREEMENT COMPANIES**

The Ministry pays Forest Management Agreement companies for silvicultural work at rates determined at the beginning of the agreements. These are adjusted annually by an inflation factor. In most cases, Forest Management Agreement companies hire sub-contractors to do the work.

For silvicultural work done on the Ministry's behalf on Crown Management Units, the Ministry hires contractors using annual competitive tenders.

We found that, while rates for silvicultural work paid to Forest Management Agreement's companies have increased steadily, prices paid by the Ministry for the same work on adjacent Crown Management Units have decreased significantly. For example, the following table compares rates paid to a Forest Management Agreement company and those paid on an adjacent Crown Management Unit during 1993/94.

Type of work	Paid to FMA Company	Paid on CMU	Difference
Container planting (per 1,000)	\$208	\$149	\$59
Mechanical Site Preparation (per hectare)			
- light	\$215	\$140	\$75
- heavy	\$336	\$185	\$151
Container seedlings (per 1,000 jack pine)	\$175	\$135	\$40

We estimate that, in this case, the additional cost to the Ministry was approximately \$436,000 in 1993/94. Total additional costs for all 28 Forest Management Agreement units could be as high as \$13 million per year. We also note that the Forest Management Agreements do not include an audit clause which would provide the Ministry with access to actual costs incurred by agreement companies.

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## RECOMMENDATIONS:

### The Ministry should:

- renegotiate agreements with Forest Management Agreement companies to ensure that Ministry payments for silvicultural work are based on competitive rates;
- amend Forest Management Agreements to include an audit clause which would give the Ministry the right to audit a company's records for compliance with the terms of the agreement, including compliance with competitive purchasing procedures.

### MINISTRY RESPONSE:

*The Ministry agrees that the rate paid to Forest Management Agreement companies for silvicultural work is considerably higher than the cost of doing the same work on some Crown management units. However, the Ministry has contractual arrangements with Forest Management Agreement holders and therefore, the Crown is legally required to pay the set rates. There was no process in place to modify these rates except at the end of each five-year period. In retrospect such a mechanism should have been developed; the Ministry will ensure its presence in any similar agreements.*

*If, however, the economy had turned in the opposite direction during the observed period, the company would have been required to underwrite the additional costs.*

*This situation will be rectified when new trust funds/special purpose accounts are established and a company will only withdraw the actual silvicultural costs incurred from their trust fund and/or special purpose account.*

*We are not in a position to dictate how a company does its purchasing. The trust fund/special purpose account arrangement will provide an incentive to find the most competitive prices possible.*

## HARVESTING

One of the main objectives of each five-year Timber Management Plan is to determine the maximum allowable forest depletion by species. This is known as the Annual Allowable Cut. The Annual Allowable Cut is determined by dividing the existing inventory of productive forest stands of a species by the appropriate rotation age. Individual stands are allocated for harvesting with a view to sustaining a continuous flow of raw material.

## FOREST RESOURCE INVENTORY

An essential first step in any forest management process is a complete, accurate and up-to-date forest inventory for each forest management unit.

In Ontario, updating the Forest Resource Inventory for a management unit is normally a three-year process. The process starts with aerial photographs taken in year one, followed by photo interpretation and sample ground cruising in the second year. New forest maps are prepared in year three based on the information collected and interpreted in the first two years. Since 1987, approximately 14 forest management unit inventories have been

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prepared in a digital format. This will allow easier handling of data and more timely updating by local Ministry and Forest Management Agreement company staff.

The Ministry's objective is to produce a completely new inventory for each management unit at least once every 20 years. However, our audit found that 48 existing inventories, or approximately 55% of the total, were over 20 years old. Nineteen, or approximately 22%, were over 30 years old.

These older inventories are normally aged and updated for known depletions prior to preparation of a new Timber Management Plan. However, since the updated areas are normally only a small portion of the total, changes in the type and age of trees in the rest of the forest could have significant impacts on the Annual Allowable Cut if they were known.

Concerns with respect to the accuracy and timeliness of the Forest Resource Inventories were also frequently noted in the Ministry's five-year Timber Management Plan reviews. Comments included:

- "Unfortunately, the re-inventory is currently delayed which means it will be too late to be used in the current five-year period . . . Accurate inventory data is basic to a meaningful Timber Management Plan."
- "The Ministry offers that the outdated Forest Resource Inventories (1974) has made timber management planning difficult for the company."
- "Three factors were the cause of the large variances in species harvested . . . (1) old inventory data which was incomplete and did not reflect the change in stand dynamics over time."
- "The Timber Management Plan was approved approximately 16 months late. Disagreement over the accuracy of the Forest Resource Inventories . . . may have contributed to these delays."

The Ministry has been unable to meet its 20-year inventory cycle in part because of backlogs in the three-year production process. At the time of our audit, an average of only 13% of the map sheets had been completed for 18 management units where aerial photography had been taken three to six years earlier. Percentage completion for individual units ranged from 0% to 75%.

We estimate that the Ministry has spent approximately \$2.1 million primarily on aerial photography and interpretation now older than three years. The value of this investment is impaired since Forest Resource Inventory maps have not been completed on a timely basis. In fact, we understand that a decision has been made not to complete the Forest Resource Inventories maps for six units for which aerial photography and subsequent interpretation were completed at a total cost of approximately \$600,000 in 1987. We were advised that funding was shifted from completing the maps to other higher priorities.

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## RECOMMENDATIONS:

### The Ministry should:

- complete a new Forest Resource Inventory for each management unit at least once every 20 years in accordance with the Ministry objective; and
- give priority to completing all Forest Resource Inventories over three years old.

### MINISTRY RESPONSE:

*The Ministry is in agreement with this recommendation. The Environmental Assessment Board has made it a condition that FRI data shall be available and updated for each forest management unit.*

*The Ministry has requested additional funding this fiscal year in order to comply with this condition.*

## INSPECTIONS OF HARVESTED SITES

Once annual work schedules have been approved and the appropriate licenses issued, it is up to the Ministry to inspect harvested sites for compliance with the *Crown Timber Act* and Ministry policies and procedures.

Inspections of harvested sites are documented on either the Ministry's regular Cut Inspection Reports or Area Inspection Reports which are a relatively recent requirement under the Class Environmental Assessments for Timber Management on Crown Lands in Ontario. In reviewing these inspection reports we noted the following:

- there are no systematic procedures to ensure that either higher risk, or a representative sample of harvested sites, are inspected by Ministry staff.

Harvested sites are only selected for inspection by chance based on Ministry staff's periodic field visits. Without systematic procedures, some units may be over-inspected while others are under-inspected. We found that the number of inspections performed varied significantly among the different units or even within the same unit over time. For example, in 1992/93, in one Crown Management Unit 259 area and cut inspection reports were completed for just 443 hectares harvested, while in another Crown Management Unit 33 inspection reports were completed for 1,417 hectares harvested. In view of the deficiencies noted below with respect to the documentation of inspections, it is not clear what a reasonable level of inspection would be.

- the total number of harvest inspections has decreased in recent years. For example, in the Crown Management Units we visited the total number of area and cut inspections had decreased from 388 in 1992/93 to approximately 190 in 1993/94, while the number of hectares harvested had increased.
- neither cut inspection reports nor area inspection reports adequately document the extent of inspections undertaken. For example, the area inspection report only has space for a checkmark to indicate whether an operator has complied with all harvest requirements. While the cut inspection report is more complete, it still doesn't adequately cover the details of the inspection.

- where infractions have been noted, there is often no evidence of re-inspection or other follow-up to determine if corrective action had been taken or whether penalties should be imposed; and
- the *Crown Timber Act* provides for penalties for specified infractions of up to five times the normal stumpage charge. We were advised that these penalties are an inadequate deterrent in some instances since the potential gains to the offender can significantly outweigh the maximum penalty.

#### **RECOMMENDATION:**

##### **The Ministry should:**

- set minimum standards for the number of harvested sites to be inspected. These inspections should be carried out representatively and be based on assessed risk;
- ensure that inspection forms fully document all aspects of the inspections undertaken;
- take any necessary follow-up action and document when infractions have been noted;
- review maximum penalties under the *Crown Timber Act* to determine whether they provide an appropriate deterrent.

#### **MINISTRY RESPONSE:**

*The frequency of inspections and the technology to be used are currently being discussed by the Ministry with all parties concerned, and action plans are being developed consistent with the recommendations of the Environmental Assessment Board.*

*The Ministry agrees that in some districts, the prescribed number of cut inspections have not taken place and agrees with the auditor report that additional monitoring is required.*

*The Ministry has a provincial cut inspection report form and regional scaling audits regularly review the number of cut inspection reports on file for each harvesting operation. We agree however, that more detail is required on the forms and will be revising the cut inspection forms to ensure consistency with the Environmental Assessment Board's terms and conditions.*

*The proposed Crown Forest Sustainability Act will outline substantially higher penalties for infractions and will provide a more appropriate deterrent consistent with the recommendations of the Environmental Assessment Board.*

#### **LIQUIDATED DAMAGES**

Each Forest Management Agreement requires that the total area that is cut of each species of tree shall not be less than 90% of the approved annual allowable cut for that species. The intent of this provision is to encourage the Forest Management Agreement companies to cut as agreed.

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Under Forest Management Agreements, the company agrees to pay liquidated damages (“an amount of money equal to the amount of the stumpage charges then applicable”) on the volume of timber equal to the difference between 90% of the total annual allowable cut and the amount actually harvested. However, these provisions do not apply to the first five-year term of a Forest Management Agreement, or to timber that has been declared surplus by a company and made available to other operators.

Our audit found that Forest Management Agreement companies were generally not declaring all surplus timber to the Ministry as required. In fact, recommendations to do so were also frequently made in the five-year reviews of each Forest Management Agreement undertaken by the Ministry, but the recommendations were not implemented.

We were advised that when liquidated damages have been calculated they are normally waived by the Minister. Accordingly, there is no incentive for the companies to declare surpluses as required under their agreements.

**RECOMMENDATION:**

**The Ministry should consider alternative methods of ensuring that Forest Management Agreement companies declare surpluses in accordance with agreements.**

**MINISTRY RESPONSE:**

*Further improvements in this situation are anticipated through provisions in the proposed Crown Forest Sustainability Act.*

*The Ministry will review the process used to ensure that companies do declare all surplus timber, and will consider alternative methods to encourage companies to utilize their full allowable cut.*

## SILVICULTURAL ACTIVITIES

### WORK REQUIREMENTS

As previously noted, the Timber Management Plan and related annual work schedules set out the planned renewal and maintenance activities for each forest unit. These plans represent, in a professional forester’s opinion, the minimum work required in each forest unit to meet the Ministry’s objectives. We noted that on average the managed or “artificial” regeneration reflected in these plans totalled approximately 28% of the planned harvest cut.

We found that for the four Forest Management Agreements (FMA) we reviewed the companies were generally meeting their Timber Management Plan silvicultural work requirements in each of the areas of site preparation, artificial regeneration and maintenance. However, Crown Management Units (CMU) and Company Units (CU) had significant shortfalls in meeting their work requirements.

The following table is a comparison of the average percentage of completion of planned silvicultural treatments for the most recently completed Timber Management Plans for the units we reviewed.

Percentage of Timber Management Plan Achieved		
Treatment	FMA	CMU and CU
Site Preparation	108	55
Range	(87-139)	(36-73)
Artificial Regeneration	109	67*
Range	(104-117)	(32-93)
Maintenance	180	51
Range	(59-460)	(23-87)

\* We were advised that actual performance in relation to Timber Management Plan silvicultural requirements is higher than it otherwise might have been because the workplans in two Timber Management Plans were based on anticipating lower funding rather than on the proper prescription for those units.

#### RECOMMENDATION:

The Ministry should ensure that silvicultural work is equitably distributed between all types of forest units and is commensurate with Timber Management Plan requirements.

#### MINISTRY RESPONSE:

*The Ministry agrees with this recommendation. The Ministry has had to make some difficult funding decisions based on financial restrictions. In general, The Ministry has provided more funding to the Forest Management Agreement program because of the contractual nature of the agreements with the forest industry. In addition, through these agreements, the Ministry has been able to leverage additional expenditures by industry at its own cost.*

*The trust fund/special purpose account mechanism will ensure that there is adequate funding to undertake the forest renewal program. The proposed Crown Forest Sustainability Act will not permit harvest without regeneration.*

## RENEWAL

### TREATMENT SELECTION

The selection of an appropriate renewal method for specific sites and species is guided by the silvicultural ground rules in the Timber Management Plan or the Forest Management Agreement. These ground rules generally provide for regeneration options ranging from no treatment to site preparation and planting.

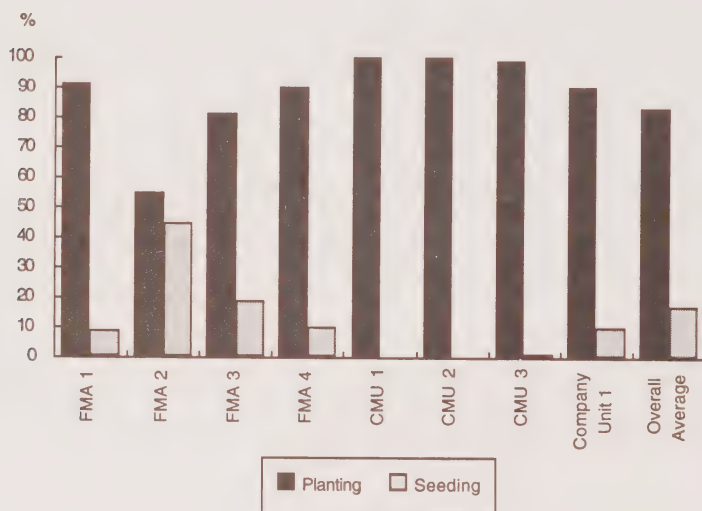
Although Forest Management Agreement companies are expected to prepare both the Timber Management Plan and annual work schedules in compliance with the ground rules, Ministry foresters would in most instances lack specific details about the local site conditions to ensure that the most appropriate species and most cost-effective regeneration

method had been selected. Instead, the Ministry relies on the Forest Management Agreement companies to make the most appropriate selection.

However, in our view, the companies have an understandable bias towards site preparation and planting over other forms of regeneration. Site preparation and planting provide the most assurance that a specific site will regenerate to the desired species in the shortest period of time. At the same time, site preparing and planting is also the most costly form of regeneration, with the total cost being borne by the Ministry.

In addition, we were advised by Ministry staff that during the current period of funding constraints, all forest units make every effort to plant as much as possible of their allocation of seedlings which may have been ordered several years in advance. This may leave little or no funding for less expensive methods of regeneration such as seeding which may be an equally appropriate method of regeneration in many circumstances.

The following graph shows a comparison of planting and seeding as a percentage of total artificial regeneration during the most recently completed Timber Management Plan for each of the forest units we reviewed:



Thus, while seeding was as high as 45% of total artificial regeneration in one unit, two other units did not use seeding at all as a form of regeneration.

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**RECOMMENDATION:**

**The Ministry should ensure that individual sites are regenerated with the most appropriate species using the most cost-effective method of regeneration.**

**MINISTRY RESPONSE:**

*The Ministry agrees with this recommendation. This is the objective of the Ministry and industry field foresters. Site preparation and tree planting does provide the most assurance that a specific site will regenerate to the desired species in the shortest period of time.*

*We agree that the existing arrangement with industry has favoured site preparation and planting since the total cost has been borne by the Ministry.*

*There have been times, also, when funding has been previously invested into tree production and foresters have been requested to utilize the trees that have been grown based on earlier forecasts of need.*

*Our current negotiations with industry, the establishment of trust funds and/or special purpose accounts, and the requirement to regenerate all areas harvested will encourage the use of the most cost-effective method of regeneration.*

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**SILVICULTURAL WORK STANDARDS AND ASSESSMENTS****FOREST MANAGEMENT AGREEMENT UNITS**

It is the position of the Ministry's foresters that Forest Management Agreement companies are responsible for setting work standards and ensuring that third-party contractors comply with them. Although Ministry staff sometimes do attend in the field while the work is undertaken, they generally provide only informal comments and feedback to the Forest Management Agreement companies.

We were advised by Ministry staff that while a more formal "audit" of both the quality and quantity of silvicultural work was performed in the past, this has been discontinued for the following reasons:

- staff constraints;
- not too many problems were found in the past, giving the audit process questionable value; and
- Forest Management Agreement companies check the work of their sub-contractors.

Instead of monitoring in detail the progress of the work as it occurs, Ministry staff advised us that they now rely on the fifth year stocking and "Free to Grow" assessments required under the Forest Management Agreements to determine the quality and ultimate success of artificial regeneration. We note that where such regeneration is unsuccessful, Forest Management Agreement companies are obliged to re-treat the area at their own expense. Ministry staff could not identify areas where that had occurred. In our opinion, waiting five or more years before making any assessment of the quality of regeneration efforts may be too long. Also, as noted later in our report, Free to Grow assessments are not being done on all regenerated areas.

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## CROWN MANAGEMENT UNITS

For Crown Management Units, detailed work expectations and standards are defined and communicated to the contractors through tender and contract documents and the Ministry's *Guide for Contract Tree Planting*.

We noted that in three of the four Crown Management Units we reviewed, the Ministry assessed the quality and quantity of tree planting. When contractors failed to perform up to standards, adjustments were made in the amounts paid. However, we also found that other work such as site preparation or tending was often not formally evaluated or not evaluated at all.

### RECOMMENDATION:

**The Ministry should establish the work standards and assessment procedures necessary to better meet its responsibility for effective regeneration of forests.**

### MINISTRY RESPONSE:

*The Ministry agrees with this recommendation. As part of the proposed Crown Forest Sustainability Act, the Ministry has begun the development of four procedures manuals. One of these manuals will outline silviculture standards and assessment procedures.*

## SITE MONITORING

### SURVIVAL ASSESSMENTS

The survival of trees is based on the ratio of living trees to the total number of trees planted. Conducting survival assessments on Crown Management Units has been a normal Ministry practice. The purpose of these assessments is, in part, to provide survival results for tree planting. The Ministry's 1993/94 Work Program Planning Guideline confirmed a commitment to complete survival assessments.

For three of the four Crown Management Units we reviewed, Ministry staff have completed survival assessments on most sites. In the fourth, no assessments have been done since 1991 while previously, they were done only sporadically. On most sites, survival rates ranged from 68% to 96%.

In contrast, survival assessments have generally not been completed on Forest Management Agreement lands. For three of the four Forest Management Agreements we reviewed, only one survival assessment had been completed, while no survival assessments had been completed in the fourth.

In addition to assessing seedling survival, survival assessments also assess the degree of competing vegetation and, if necessary, make recommendations for tending treatments. However, to the extent assessments have not been undertaken, the need for tending treatments is not known. Since the Ministry pays Forest Management Agreement companies for each tree planted and bears the cost of the seedlings provided, these assessments need to be done on a systematic basis.

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## RECOMMENDATION:

The Ministry should establish a survival assessment policy for all plantings.

## MINISTRY RESPONSE:

*The Ministry accepts the fact that there were differences in the way assessments were undertaken on Crown units and Forest Management Agreement units. Industry has not found it cost effective to undertake a formal second-year assessment.*

*The Ministry will establish a survival assessment policy for all plantings on Crown land. The new policy will enable us to have enough information to ensure that we do not lose any silvicultural investments already made into the site.*

# 3.10

## FREE TO GROW ASSESSMENTS

A Free to Grow assessment is the ultimate indication that a particular area has been successfully regenerated.

Regenerated areas are declared Free to Grow when the new trees meet minimum height, stocking and growth rate standards, and are essentially free from competing vegetation. Only new stands that are declared Free to Grow are included in the Forest Resource Inventory and are considered in the Annual Allowable Cut calculations.

Forest Management Agreements state that it is the company's responsibility to submit requests for Free to Grow assessments to the Ministry, which in turn must undertake the assessment, maintain records and submit stand descriptions to the Forest Resource Inventory. In practice, Free to Grow assessments are often combined with the company's stocking assessments. Under terms of their agreements, companies are required to assess whether stocking in regenerated areas is in accordance with the ground rules in the fifth year after an area has been harvested or in the fifth year after a particular area has received regeneration treatments.

Where minimum stocking is not in accordance with the ground rules and the original regeneration treatment was paid for by the Ministry, the company is required to re-treat the site at its own expense.

For Crown Management Units, the Timber Management Plan requires that Free to Grow assessments be undertaken four to ten years after regeneration treatments depending on the species and renewal treatment used.

In order for the fifth-year stocking and Free to Grow assessment process to effectively monitor the success of artificial regeneration, the Ministry would need a system which identifies sites for assessment when they are due. However, in the absence of such a system for both Forest Management Agreements and Crown Management Units, and in view of the fact that only areas submitted by the companies are assessed in Forest Management Agreement units, there is no assurance that artificially regenerated areas receive Free to Grow assessments when they are due.

In fact, we found that many of the Free to Grow assessments were done on areas left for natural regeneration many years ago, not more currently regenerated areas. We also found

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that, in four of the areas reviewed, Free to Grow assessments have only been undertaken in the last several years.

Without stocking or Free to Grow assessments the Ministry would not be able to identify which areas should be re-treated by the companies and whether sustainability is being achieved. The Ministry would also not be able to determine whether it is fulfilling its objective of sustaining the forest by generally replacing harvested trees with the same species. On some Forest Management Agreement lands the area declared as Free to Grow is only a small fraction of what was harvested. For example, for two Forest Management Agreements the area of the desired species which was declared Free-to-Grow was less than 20% of what was harvested.

#### **RECOMMENDATION:**

##### **The Ministry should:**

- **develop a monitoring system that will identify all areas due for a fifth-year stocking or Free to Grow assessment;**
- **ensure that all stocking and Free to Grow assessments are performed within the timeframes specified in the Forest Management Agreements and ground rules.**

#### **MINISTRY RESPONSE:**

*The Ministry recognizes deficiencies in the existing fifth year stocking and Free to Grow assessment procedures. As part of the development of the proposed Crown Forest Sustainability Act, the Ministry is in the process of reviewing its existing assessment methods.*

*Procedures, timing and standards will be part of the Silviculture Operations manual being developed as part of the proposed Crown Forest Sustainability Act.*

## **MINISTRY NURSERIES AND TREE SEEDLING ACQUISITION PROGRAM**

The provincial tree planting program requires both container seedlings and bareroot seedlings. Container seedlings are mainly purchased from private growers who currently produce approximately 85 million seedlings per year. Of these, approximately 65 million seedlings are purchased directly by Forest Management Agreement companies while the remainder are purchased by the Ministry, primarily for use in Crown Management units. The Ministry pays directly or indirectly for all the seedlings used by Forest Management Agreement companies and itself.

Prior to 1992/93, bareroot seedlings were grown exclusively by ten ministry-operated nurseries. These were provided to both Forest Management Agreement companies and Crown Management Units at no cost. Current production totals approximately 46 million while the ten nurseries had a production capacity of approximately 109 million seedlings. At the time of our audit, as a result of this excess capacity, four of the Ministry's nurseries were no longer used to produce stock. These nurseries continue to provide cold storage and distribution facilities.

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However, the decision as to which nurseries were to cease to produce seedlings was not based on reliable and appropriate production cost information.

The cost of producing bareroot seedlings varies among individual Ministry nurseries. Accordingly, effective management requires an accounting system that can track seedling production costs at each nursery. This information could then be used to identify significant variances and to establish standards or expected norms. Regular reviews and analyses of reliable cost data would enable the Ministry to assess the efficiency of individual nurseries. This information could be used to help identify best management practices among nurseries and assist in determining which facilities should be closed when excess capacity becomes an issue.

Annual cost summaries for each nursery are prepared using information from the Ministry's accounting system. However, these are incomplete and unreliable:

- expenditure totals per the Production Cost Summaries prepared by Ministry staff could not be reconciled to the information in the accounting system;
- production cost summaries did not reflect repair and maintenance costs and utility expenditures paid directly by the former Ministry of Government Services for some nurseries; and
- variances in seed utilization were not reflected in the cost summaries because the cost of seed extraction and storage is not charged back to the nurseries.

Ministry staff seemed unconcerned about these errors and omissions since the production cost information is not used for decision-making purposes. Instead, we were advised that nursery performance is monitored and evaluated based on non-financial information such as the ability to meet production targets and delivery dates.

#### **RECOMMENDATION:**

**The Ministry should ensure that its accounting system reliably reflects the actual cost of seedling production for each nursery.**

**The Ministry should analyze the variances in such costs and use the information to improve the efficiency of its nurseries and to decide on corrective action, including discontinuing production at individual nurseries.**

#### **MINISTRY RESPONSE:**

***The Ministry is in the process of developing a supplemental costing process in addition to using the corporate cost accounting system.***

***The information generated by this supplemental system will help develop more efficient processes and help us make more effective business decisions as to where we can most efficiently grow trees.***

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## NURSERY CLOSURES

Switching from bareroot stock to container stock has resulted in significant excess production capacity at Ministry-operated nurseries. Recognizing this, the Ministry stopped production at four of its nurseries.

The remaining six nurseries are operating at an average of 72% of capacity. Based on current levels of production, we estimate that the ministry could save in excess of \$1 million annually by reallocating all bareroot seedling production to its three lowest cost nurseries.

### RECOMMENDATION:

**The Ministry should assess the need for maintaining production at all of its six nurseries.**

### MINISTRY RESPONSE:

*The Ministry is currently negotiating a new business arrangement with industry in northern Ontario and reviewing its private land program in southern Ontario.*

*The Ministry will assess the provincial need for nursery stock based on field demand and cost and make a decision on the need for maintaining production at all six nurseries.*

## CAPITAL ASSET ACQUISITIONS

Management Board of Cabinet Directives require that capital asset acquisitions be justified based on a documented cost/benefit analysis, including full consideration of all potential alternatives.

In 1993, the Ministry constructed a cold storage facility at a cost of approximately \$800,000. A cost/benefit analysis was not carried out before proceeding with the project. For example, there was no documentation why an additional facility was needed, the size of facility required or where it should be constructed.

### RECOMMENDATION:

**Before acquiring capital assets, the Ministry should carry out a comprehensive cost/benefit analysis including consideration of alternatives.**

### MINISTRY RESPONSE:

*The Ministry does undertake cost/benefit analysis and considers alternatives before acquiring capital assets. However, there is not always a formal written tracking system in place to establish how capital decisions have been made.*

*The Ministry will ensure that future capital projects will be based on documentation that will include a comprehensive cost/benefit analysis and consideration of alternatives.*

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## CONTAINER SEEDLING PURCHASES

In accordance with an agreement between the Ministry and the Provincial Growers Association, eligibility to bid on provincial tenders for the supply of container seedlings has traditionally been restricted. Growers could only bid on contracts within the region where they were located. As a result, separate tenders were undertaken, twice a year (usually in January and March) for each of the Ministry's four former northern regions.

We reviewed the 1993 tenders for the purchase of jack pine and black spruce seedlings which accounted for approximately 87% of the 20 million seedlings purchased that year. Seedling prices were generally lower in the northeast than in the northwest. For example, the average price per 1,000 black spruce and jack pine seedlings purchased in the northeast was \$111 compared to \$145 in the northwest.

We calculated that the Ministry could have saved approximately \$250,000 if it had accepted the lowest overall bids, irrespective of regional boundaries.

The Ministry indicated that, as a result of implementing suggestions made by our Office and pursuing a more business-like relationship with the growers, it revised its tendering process. In 1994, the Ministry had one tender for the acquisition of seedlings. This was the first time this process had been used.

Using this process, the average price per 1,000 seedlings from the successful bidders was \$101 in the northeast and \$130 in the northwest. The Ministry expects to save approximately \$350,000 in 1994/95 and an additional \$150,000 in 1995/96.

## PURCHASES OUTSIDE OF TENDERING PROCESS

In 1993, the Ministry purchased 4.4 million seedlings from a supplier in the northwest region at an average cost of \$240 per 1,000 seedlings, which was not part of the tendering process. The cost of these purchases totals approximately \$400,000 more than similar purchases made through public tender. We were advised that the Ministry is committed to making such purchases from this supplier until the year 2000.

### RECOMMENDATION:

**The Ministry should review the merits of purchasing seedlings from a supplier charging \$240 per 1,000 seedlings.**

### MINISTRY RESPONSE:

***The Ministry will review this contract and establish a more business-like arrangement within the broader context of the agreement.***

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# OTHER MATTER

## ACCOUNTING / ACCOUNTS PAYABLE SYSTEM

We were advised that several years ago a consultant engaged by the Ministry reported that the Ministry's accounting system was too labour intensive. As a result, the Ministry purchased a new accounting package including accounts payable software which was implemented Ministry-wide effective April 1, 1993.

The introduction of this new software fundamentally changed the Ministry's payment system. In the past, local accounts payable staff, which were located in the Ministry's head office, regional and district offices, manually matched invoices with purchase orders and receiving reports prior to payment processing. The new system relies on a computer matching of these items. This requires order and receipt information to be entered into the system by local program managers. All invoices are to be received, recorded and paid by finance staff located in Peterborough.

During our audit, Ministry staff expressed a number of concerns about the new system relating to their ability to effectively manage their programs. These included:

- an inability to obtain timely and accurate reports with respect to program costs incurred;
- the system's inability to process a large number of transactions for which purchase orders and receiving reports are normally not issued;
- a significant backlog of transactions. Several suppliers who had not been paid for an extended period of time refused to extend further credit to the Ministry;
- duplicate payments caused by the issuance of manual cheques to help clear up the backlog;
- coding errors, attributable in part to the introduction of a new 35-digit account code;
- the system's slow response time and the amount of down time.

Many of these problems may have been caused by the relatively tight deadline under which the system was implemented and inadequate familiarization and training of Ministry staff. We were advised that the Ministry is currently undertaking a number of initiatives which will alleviate the above noted concerns. These include the reduction of the large number of small transactions and a comprehensive staff training program.

We will follow up on the Ministry's efforts to correct the problems after sufficient time has elapsed for implementation.

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## MINISTRY OF THE SOLICITOR GENERAL AND CORRECTIONAL SERVICES

# Ontario Provincial Police

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3.11

Under the *Police Services Act*, the Ontario Provincial Police are responsible for policing parts of the province which do not have their own police agencies. In addition, the OPP may be directed by the Solicitor General to undertake policing responsibilities normally done by a municipal force or to provide assistance to a municipal police service.

The OPP must also provide a traffic patrol on certain highways, enforce liquor laws and other laws such as the Solicitor General may direct, and maintain specialized investigative and enforcement capabilities to assist other municipal forces.

The OPP consists of a general headquarters, 16 district headquarters allocated among three divisions (north, east, west), and 180 detachments across the province. As of March 31, 1994 staff complement was about 5,900. Of this complement, 4,600 were uniformed staff and 1,300 were civilians. Detachments employ 80% of all uniformed staff.

For fiscal 1993/94, expenditures by main activity were as follows:

	\$Millions
Field Operations Division (districts and detachments)	365.0
Services Division (includes vehicle, equipment, supplies and information systems management)	82.8
Investigations Division (includes drug enforcement, anti-rackets, intelligence and criminal investigations)	30.4
	<u>478.2</u>

## OBJECTIVES AND SCOPE

Our audit objectives were to assess whether:

- the OPP had satisfactory procedures to measure and report on its effectiveness in carrying out legislated responsibilities such as traffic management and community policing;
- force staff were recruited, deployed and managed in an efficient and effective manner and in compliance with the *Police Services Act*;

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- policing services provided to municipalities were administered equitably and in accordance with the *Police Services Act*; and
  - OPP vehicles, equipment and supplies were purchased and managed economically and efficiently, and in accordance with the *Police Services Act*.

We focused our audit on Field Operations and Services activities, which represent over 90% of OPP expenditures.

Our audit was conducted at the OPP's general headquarters, six district headquarters and nine detachments distributed among the three operating divisions. We also visited three municipal police forces and obtained information from the RCMP and Sûreté du Québec.

The audit branch examines district and detachment operations to assess their level of service delivery and to assess compliance with OPP policies, procedures and legislation. We reviewed the recent work carried out by the Branch and determined that we were able to rely on it in determining the nature and extent of our own audit work.

Our audit was conducted between November 1993 and April 1994, during a period of organizational review for the OPP. A number of significant initiatives were under way to re-examine and improve virtually all aspects of OPP administration, including organization structure, fleet management, human resource management and administrative policies and procedures. We reviewed these initiatives and studies to determine their impact on our audit work and recommendations.

#### **OVERALL MINISTRY RESPONSE:**

*The timing of the provincial audit and the Organizational Review is opportune in that the Review's preliminary recommendations indicate a convergence with those of the audit report, particularly in the areas of effectiveness measures and human resources management. The Organizational Review Subprojects, for example, Occurrence Management, Traffic/Waterways Management, Detachment Administration, and so on, have addressed and recommended solutions to many of the issues identified in the audit report. These solutions will be implemented as resources permit.*

## **AUDIT OBSERVATIONS**

### **EFFECTIVENESS MEASURES**

We found that the OPP reports and monitors a variety of important statistics on its inputs, activities and outputs, and has begun to collect information about its effectiveness in delivering policing services.

Each year, management produces a five-year summary of performance indicators. In addition to basic information on expenditures, staffing, workloads and outputs (charges laid, kilometres driven), selected key productivity indicators are published. The following chart shows the kind of information reported:

Key Productivity Indicators Selected	Examples of Information Provided
Financial	Non-salary expenditures per employee and per uniformed employee by division.
Labour	Staffing levels, attrition rates and employment equity data.
Workload	Per-constable statistics such as hours worked, obligated duties, patrol hours, training hours, calls for service, charges laid and clearance rates.
Transportation	Per-constable statistics such as kilometres driven and gasoline costs as well as accident rates.

These indicators and statistics are useful in helping the OPP to evaluate operational efficiency. However, this information is not appropriate for assessing progress toward achieving its legislated and strategic objectives to provide police services that, for example:

- reflect community needs and encompass community services and crime prevention activities;
- promote public peace, well-being and security; and
- prevent traffic accidents and promote traffic management.

## COMMUNITY POLICING

The delivery of community-oriented policing services focuses on helping communities to identify and solve those problems that relate to maintaining law and order within their boundaries. Information about problems identified, resolved and remaining is therefore of primary interest in assessing the success of community policing initiatives.

In this regard, we noted some examples of effective problem solving and reporting initiatives in certain detachments we visited. For instance, one detachment that had experienced a substantial increase in the number of multiple fatal motor vehicle accidents took the following approach to the problem:

- all fatal motor vehicle accidents were analyzed for relevant details such as time, location and driver action;
- community residents were encouraged to observe and report incidents of aggressive driving; and
- warning letters were sent to aggressive drivers reported, with a second complaint resulting in contact by a police officer.

Early evaluations of this effort indicated that the number of fatal accidents had declined substantially.

The Field Co-ordination Branch recently developed a community-policing reporting format to ensure that this type of problem-solving approach and reporting is encouraged

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throughout the force. The format specifies four requirements: problem identification, analysis, strategy development, and evaluation. We also understand that the Branch is creating a database to permit identification and dissemination of innovative problem-solving examples among detachments and the communities they serve.

While these efforts have contributed to improving effectiveness measurement and reporting, based on our review of plans and reports in the detachments we visited, effectiveness measurement and reporting could be further improved by:

- making better use of detailed statistical information to gain more insight into the nature and extent of problems and to develop more specific strategies to address them; and
- more thoroughly evaluating the strategies carried out to determine what effect they had on the problem identified. The more precise staff can be in quantifying the result, the better.

## **RECOMMENDATIONS:**

**To improve effectiveness reporting, the OPP should require detachments to conduct:**

- more comprehensive analyses of community problems; and
- more thorough evaluations of actions carried out to address them.

## **MINISTRY RESPONSE:**

*The OPP recognizes that to improve effectiveness a greater emphasis must be placed on problem-solving. The OPP has adopted a community policing model that is problem-solving oriented and has taken and will continue to take steps to institutionalize this model through a multi-faceted approach focusing on education, reporting/evaluation mechanisms and performance management.*

*To this end a number of education initiatives have been undertaken since 1991 within virtually all levels of the force.*

*Additionally, the OPP Organization Review has identified the need for access to information/statistics and analytical tools at the local level. Enabling technology has been identified as the vehicle to permit comprehensive analyses and information sharing on problem solving approaches and evaluation mechanisms.*

*To institutionalize a community policing problem-solving approach, performance management systems are being developed to encourage and reward problem-solving performance. Uniformed position descriptions are also being revised to include a substantial problem-solving component.*

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## TRAFFIC MANAGEMENT

A significant OPP responsibility for which planning and reporting could be improved is traffic management. Traffic management objectives are established by each detachment in an annual traffic management plan. These plans are reviewed by district sergeants and superintendents to ensure they are achievable and consistent with overall force objectives.

Our review of several of these plans and subsequent reports of results revealed that:

- most plans were not based on an in-depth analysis of traffic problems and trends, contrary to the problem-solving approach advocated by management for community policing generally (the example cited earlier is a notable exception). Objectives were usually stated in terms of service levels or outputs such as patrol hours and charges laid, or were more general, such as reducing the number of highway accidents.
- the reports of results indicated that key objectives that had been set were not being achieved.

Published statistics reveal that between 1988 and 1992 the number of reportable collisions increased by almost 5,000. While the number of fatal personal injury accidents actually declined during this period despite increasing volumes of traffic, the increase in accidents and costs associated with them is a concern. However:

- from 1988 to 1992, *Highway Traffic Act* charges laid per constable dropped 45%. *Criminal Code* traffic charges per constable dropped 24% in the same period; and
- from 1989 to 1992, impaired driving enforcement patrol hours have dropped over 50% for the RIDE program and 24% for regular patrol.

A number of constables and detachment commanders we interviewed felt that traffic enforcement was not perceived as a priority and, because of increased time required for obligated duties (such as increases in calls for service and report-writing efforts, discussed later), less time was available.

### RECOMMENDATIONS:

**The OPP should ensure that:**

- detachment traffic management plans are based on a comprehensive analysis of traffic problems, consistent with OPP expectations for community policing; and
- effectiveness in identifying and resolving traffic problems is reported to and monitored by senior management.

### MINISTRY RESPONSE:

*The OPP agrees that a more comprehensive analysis of traffic management problems, consistent with our community policing philosophy, would contribute to better planning at all levels and that the identification and resolution of traffic problems should be reported to senior management.*

*The Organizational Review Project has addressed this issue and made recommendations to position traffic duties more appropriately within the OPP.*

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*The Review has identified the need for access to information/statistics and analytical tools at the local level. Technology will permit comprehensive analyses and information sharing on problem solving approaches and evaluation mechanisms. Continued staff development in problem oriented policing, which includes the development of analytical and research skills, will also enhance the OPP's capability to address this recommendation.*

*With respect to specific enforcement activities, it should be noted that, between 1988 and 1992, calls for service increased by more than 15%, from 490,500 to 568,200. The need to have constables spend more of their time responding to this non-discretionary workload directly impacts on the OPP's ability to assign resources to more pro-active enforcement measures. To address this increase in workload, the OPP received approval in 1992 to hire an additional 241 officers over a three-year period. In 1993, changes were made to involve more generalist law enforcement officers in RIDE initiatives resulting in a 9% increase in the number of vehicles checked over the previous year. It is anticipated that the staffing increases and implementation of recommendations from the Organizational Review Project will help ensure that there is a greater focus on traffic occurrence prevention through increased visibility and enforcement.*

## HUMAN RESOURCE MANAGEMENT

Because labour costs comprise 73% of OPP expenditures, effective human resource management is critical. The OPP has begun several initiatives aimed at making better use of staff. For example:

- several detachment amalgamations have been announced and others are planned with the objective of reducing administrative costs while maintaining or enhancing service to the public; and
- in late 1993, a court case management program was implemented to reduce witness costs, constable court time and overtime costs, and to improve the quality of crown briefs and files. Initial results are encouraging.

Below we discuss several other opportunities to improve human resource management that we believe exist. Given that the OPP will be experiencing an accelerated rate of retirements and consequent influx of new recruits over the next two years, our recommendations on these matters should be considered for early implementation.

## RECRUITMENT

The *Police Services Act*, 1990, introduced new expectations for policing, including requirements for employment equity and an emphasis on community policing. These expectations have important implications for constable recruiting and training. Recognizing this, the Ministry of the Solicitor General, on behalf of all police forces, has re-examined recruiting and training practices to incorporate the following objectives:

- a recruit testing and interview process that is structured, up-to-date and fair;
- tracking and linking on-the-job performance to screening practices; and
- integrating recruiting requirements with programs offered by educational institutions.

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In this regard two recent studies have been completed:

- in September 1992 the Strategic Planning Committee on Police Training and Education issued a report entitled *A Police Learning System for Ontario*, which recommended new training and certification requirements for uniformed staff; and
- in 1991, the Police Constable Selection Project was created to help establish a standardized selection process for police constables across Ontario. In 1993, a Core Working Group, which had representatives from various police services and the Ontario government, made recommendations for the competencies a recruit must possess to become a successful constable.

Recruiting costs can exceed \$4,000 per applicant. In addition, training costs, including salaries, for those hired exceed \$40,000 per recruit over the required ten-month recruit training period. Consequently, implementing these study recommendations could have a significant impact on the cost-effectiveness of recruiting and training processes. For example, if implemented it will be possible to share assessment results across police services and establish a province-wide pool of candidates who have met the essential requirements.

Due to accelerated attrition under the government's early retirement program, the OPP expects to hire over 400 constables in 1994. This is more than double the number of recruits hired annually over the last four years. Significant recruiting efforts will also be needed in subsequent years. Consequently, there is a need to accelerate implementation of accepted recommendations.

#### **RECOMMENDATION:**

**The Ministry should implement accepted recommendations from recent police recruiting and training studies to ensure the OPP's current major recruitment initiatives are effective.**

#### **MINISTRY RESPONSE:**

*The OPP supports the recommendations set out in A Police Learning System and The Constable Selection Project. However, some of these recommendations, such as the transition of recruit training to community colleges, require significant policy and organizational changes. These changes, which are issues for all Ontario Police services, are very complex and must be carefully considered.*

*The Constable Selection project recently entered Phase III of a planned four phase study. It involves "pilot testing" the basic selection model beginning in January 1995 and the development of a cost-benefit analysis for police services and the police applicant. Final recommendations will be made after evaluation of the pilot and are expected to be completed by the fall of 1995.*

*The OPP now incorporates many aspects of the studies as they pertain to recruit selection. The OPP has had ongoing participation in the Constable Selection Project. The Project has referenced the attributes and competencies the OPP uses in recruit selection in developing its proposed recruit selection models, and the OPP has had the opportunity to adapt its practices to take into account the findings of the Project.*

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## STAFF DEPLOYMENT MODEL

In response to concerns expressed in our 1990 audit report regarding inequitable staffing levels among OPP detachments, management responded that "a formal staff allocation model based on workload and modified for special factors would be forthcoming."

After extensive research, the OPP selected and modified a computer staffing model developed by the Illinois State Police. Components of the model include such factors as a standard for response times to calls for service and patrolling requirements. Although senior managers we interviewed were generally satisfied with the model, several staff expressed concern that the model did not reflect the significant impact of false alarms on workload.

The staffing model is an excellent start as a mechanism for deploying staff. Since implementing the model in 1990, staff have been shifted among divisions and detachments to more equitably balance workload and eliminate staffing inequities.

Applying the model to 180 detachments suggests that some staffing inequities may remain among detachments. For example, 68 detachments (36%) had an assigned complement that differed by more than 10% from that suggested by the model. Of those 68 detachments, 42 (61%) had an actual complement that exceeded the recommended complement, excluding specialist officer requirements. However, we recognize that the staffing levels suggested by the model must be reviewed and adjusted for each detachment to reflect unique and changing circumstances so that some variances from the model may be justifiable.

The significant attrition expected soon should provide additional opportunities to reduce any remaining staffing inequities.

## RECOMMENDATIONS:

To ensure that resources are equitably distributed among detachments, the OPP should:

- assess the impact of false alarms on the workload of the staff concerned and, if necessary, revise the model accordingly; and
- use increased retirement and recruiting activity to correct any remaining staffing inequities among detachments.

## MINISTRY RESPONSE:

*Response to false security alarms and the resulting necessary, but inappropriate, use of police resources is a concern to a number of police services in the province. Many have taken remedial steps to reduce the incidence of false alarms by taking action in three main areas: penalizing owners of security alarm systems that produce false alarms, negotiating with companies that install security alarms to better train owners in the proper use of the alarm systems and ensuring that companies which monitor alarm signals agree to verify more carefully all signals before calling police. The Ministry continues to monitor the situation in those jurisdictions that have raised concerns in this area, and to advise police services upon request as to methods which may be employed for handling problems with false security alarms.*

***Within the OPP, false alarms involve significant workload for detachments with large populations. To better manage this workload and focus on prevention, enhanced policy is currently being drafted with a view to significantly reducing the number of false alarm calls for OPP personnel. Placing a stronger onus on alarm owners to correct problems with their alarms will be a major focus of the revised policy.***

***To ensure that the model adequately reflects workload levels, a review of the types of calls for service in the model, including false alarms, will be undertaken.***

***Differences between model results and actual staff ("inequities") are continuously monitored by senior management and the Resource Deployment Unit, Human Resources Branch and are taken into account in staffing decisions. However, due to the OPP's deployed organization and available resources, there are limitations on the OPP's ability to redeploy staff. Attrition and recruiting have allowed the OPP to adjust staffing in a cost-effective manner.***

## **USE OF CIVILIANS**

Many members we interviewed felt that some of the duties currently performed by uniformed officers could be performed more cost effectively by civilians. Positions most commonly identified included court officers, firearms trainers and certain other instructors, clerical functions such as data entry, and those in identification unit functions such as fingerprinting and photography.

For example, the Ministry of the Attorney General recently advertised for a court officer position and did not restrict the competition to sworn constables. The pay scale was about 15% lower than that of a constable employed by the OPP.

In 1991, the OPP Strategic Planning Committee reviewed field uniformed positions for the purpose of identifying the potential for "civilianization" and came to a similar conclusion. However, little progress had been made to May 1994.

While replacing retiring or departing members with civilians can be more cost effective for some functions and provide a better mix of skills and abilities, there are two factors which have limited management's ability to make changes more promptly:

- detachments require flexibility to provide uniformed staff with lighter duties on a temporary basis in case of injury, maternity leave or other restrictive circumstances; and
- civilians and uniformed staff each have different bargaining agents and each may have competing interests with respect to "civilianization."

In view of the re-organization taking place and the number of retirements expected, this would be an excellent opportunity to increase the proportion of civilians in the OPP where it would be cost effective to do so.

## RECOMMENDATION:

The OPP should assess the potential to replace retiring uniformed staff with civilians where it would be cost effective to do so.

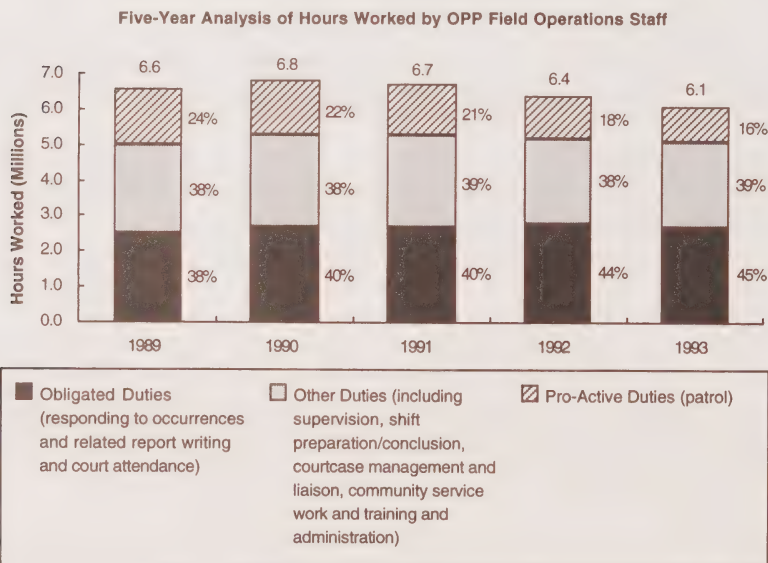
## MINISTRY RESPONSE:

*The OPP is committed to expanding the use of civilians in the organization by evaluating the skill sets required in positions as vacancies occur and taking into account other relevant factors. The issue of civilianization will also be reviewed during the next phase of the Organizational Review, and it is anticipated that the result will be greater opportunities for civilianization in professional, managerial and technical positions. One of the Organizational Review Project recommendations is to run a pilot project to assess the feasibility of transferring administrative tasks currently performed by uniformed staff to a new detachment civilian administrator position.*

*The OPP has recently increased its usage of part-time police officers. In some cases, these part-time members are being hired in a civilian capacity to perform administrative tasks performed by regular uniformed officers.*

## MANAGEMENT OF FORCE ACTIVITIES

The following chart reveals some interesting trends over the last five years in how field operations staff spend their time.



Source: OPP Daily Activity Reporting System

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A further analysis of underlying data reveals that between 1989 and 1993:

- obligated duty hours per year, per field constable have increased from 778 to 881, or 13%. Increases in *Criminal Code* and traffic accident occurrences explain some of this trend as these occurrences on average require more constable time than other occurrences; and
- the proportion of hours spent on other duties has remained relatively stable but the total average hours worked per year, per field constable and sergeant has dropped by 59 (3.6%) from 1,655 to 1,596. While some of this drop is the result of Social Contract provisions permitting time off in lieu of pay for overtime worked, as well as a reduction in overtime generally, greater absenteeism is also a factor.

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The result has been that pro-active annual patrol hours per field constable have declined steadily from 490 to 313, a drop of more than 36%, or only 16% of total hours. This trend supports concerns expressed by several staff we interviewed in detachments regarding declines in traffic enforcement effort and inability to meet traffic management objectives.

Two significant reasons for these trends are discussed below.

## ABSENTEEISM

According to the OPP, the overall average for short-term absenteeism for 1993 was 11 days, at a cost of \$11.6 million. In terms of time lost for 1993, this translates into approximately 350,000 hours. In 1992, the cost of short-term sick leave for OPP field operations was over \$10 million, or an average of \$2,100 per employee. By way of comparison, the overall average for the Sûreté du Québec was eight days in 1993.

Further analysis revealed that in 1993, 44 of the 180 detachments had average short-term absenteeism rates of between 13 and 30 days.

Management has also been concerned with increasing short-term absenteeism, having noted a marked increase in the use of short-term sickness leave after introduction of the early retirement provision. There is a tendency to claim accumulated sick leave entitlements prior to retiring. In this regard, in a memorandum issued January 25, 1994, district commanders were asked to monitor short-term leave and reduce its usage wherever possible.

In one district we visited, a medical certificate is required to indicate what specific tasks a member may be able to perform. This district had an average absenteeism rate for 1993 of six days. This is a possible best practice that could be adopted by other districts.

While the OPP has an Attendance Improvement Committee to address overall concerns, there needs to be more emphasis on establishing local control over absenteeism. This could include the timely collection and analysis of attendance statistics at the district level, monitoring and controlling absences on a timely basis, and training supervisors in absenteeism reduction methods.

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## RECOMMENDATION:

OPP management should strengthen monitoring and control of absenteeism by developing a consistent policy that requires and assists district commanders to take corrective action.

## MINISTRY RESPONSE:

*An attendance enhancement initiative is underway within the Ministry. A model for attendance improvement is currently under consultation. It is expected to be in place across the Ministry early in 1995.*

*In the interim, OPP management is supplying each district commander and branch director with the 1993 printouts of all short-term absences from the Central Attendance Reporting System for all staff under their command. These printouts, when combined with local 1994 monthly absenteeism information, will enable managers to address high absenteeism trends and acknowledge staff with low absentee rates.*

*In addition, all members who have taken more than the average number of sick days in the preceding 12 months and have indicated they will be retiring under Factor 80 are being identified to district/branch command staff for personal follow-up on an individual basis. Pre-retirement usage of sick time is one important factor contributing to the absenteeism rate.*

*Your report mentions that absenteeism is not the only factor resulting in a decrease in average hours worked. While decreased hours have also resulted from the time off in-lieu-of-pay provisions of the Social Contract, it is important to note that managers are instructed to conduct workload analyses to determine the most appropriate times to schedule time off for their personnel to ensure that operational and officer safety and backup requirements are met.*

## REPORT WRITING

The OPP has been implementing an automated integrated occurrence information system called OMPPAC (Ontario Municipal and Provincial Police Automation Co-operative). In 1993 we reported on the development stage of this system, with particular emphasis on project management methods, data integrity and system security. As reported at that time, the partnership of the Ministry and municipal police services allowed for the creation of an automated police information system that would likely have been well beyond the individual resource capabilities of the involved municipal forces. As such, the benefits are substantial.

By March 31, 1994 about two-thirds of OPP detachments were using OMPPAC to record reported occurrences, possible suspect sightings and investigation results and to generate their reports.

Our interviews at districts and detachments consistently raised concerns over the time required to enter information into OMPPAC. The majority of the officers interviewed stated that they have been spending 20% to 40% additional obligated duty time on report writing since OMPPAC was implemented at their detachments.

Our own analysis of report-writing time captured by the OPP's Statistical Information Section revealed that in 1993, on average, OMPPAC detachments spent almost twice as much time on report writing as non-OMPPAC detachments. For each detachment, we also compared report-writing time prior to implementation to the time spent after the system was fully operational. The increase in time averaged about 90%, although some of this increase could be attributed to an increase in the number of occurrences.

We understand that various initiatives are under way to reduce the amount of time spent on reports. Options being considered to reduce the amount of constable time spent entering information include:

- using clerical staff to enter data as some municipal police forces have chosen to do. However, this would not contribute to OPP management's long-term goal of having in-car terminals to reduce time spent in detachment offices;
- software changes to reduce the number of screens that must be accessed and to make the system more user friendly; and
- using operators to assist with data entry. In this regard, a pilot project was started recently in one district in which operators enter information into OMPPAC and complete the initial screens.

#### **RECOMMENDATION:**

**We recommend that the OPP fully explore the various alternatives for improving the data entry efficiency of OMPPAC users and implement changes that reduce constable report writing time as soon as possible.**

#### **MINISTRY RESPONSE:**

*The OPP is conducting a pilot project in one district with the objective of reducing the report writing time for front line officers and the time sergeants spend checking and approving incidents. Preliminary results indicate a substantial reduction in the number of incidents entered on the system by officers and consequently the time expended on report writing. The reduction in time expended in officer report writing is due to a significant redirection of initial entry of incidents to District Comcentre civilian staff. Measures have been initiated to systematically implement these strategies in other districts as resources permit.*

*In order to make OMPPAC more "user friendly," the OMPPAC Executive has identified improved text processing as the top priority for Information Resources Division (IRD). IRD has conducted a Feasibility Study to provide text processing . . . for the OMPPAC application. The objective of this enhancement is to make the viewing and editing of lengthy OMPPAC narrative documents more efficient and less time consuming through the use of text processing features of [commercially available word processing software].*

*The Organizational Review Project has also recommended solutions to improve data entry efficiency and reduce report writing/administrative time using the following principles:*

- *capture information once and at source;*
- *collect, verify, communicate and analyze information electronically; and*

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- *collect the minimum amount of information required to perform/manage policing functions.*

*The technology implications and implementation requirements will be addressed during the next phase of the Review.*

## MUNICIPAL POLICING

Under the *Police Services Act*, all towns and cities with populations greater than 5,000 are responsible for providing their own policing services. Towns can be exempted by Order-in-Council, in which case the OPP would provide policing services at no charge. Additionally, villages and townships considered to have a sufficient population density and sufficient real property assessment may be designated by Order-in-Council to be responsible for their own policing. A municipality determined to be responsible for the provision of policing services can fulfil this requirement by either maintaining a local municipal police force or by contracting for policing services with the OPP or with another municipality.

## PROVINCIAL REVENUES AND EQUITY

Over 80% of municipalities (towns, villages and townships) representing about 15% of the population receive free OPP policing while other municipalities pay for their policing, either by maintaining their own force or by a contract with the Solicitor General. More specifically:

- over 70 municipalities having a population over 5,000 receive free OPP services from the Province while more than 45 municipalities with populations less than 5,000 pay for policing; and
- more than a dozen municipalities having a population above 10,000 receive free OPP policing while some municipalities with populations less than 2,500 pay for policing.

The OPP and the Ministry have long recognized the inequities and cost to the Province of providing free OPP policing to some municipalities and not others. Our Office reported this issue in 1990. However, to May 1994 no significant changes had been made. Problems include disagreements about the expenditure authority of local police services boards and uncertainty as to the proportion of provincial grants to municipalities that pertains to policing.

We understand that the Ministry is considering various options.

## MUNICIPAL POLICING CONTRACTS

For those municipalities with OPP policing service contracts, we noted that:

- six municipalities were withholding payments totalling about \$2.5 million, yet some of these have had their contracts renewed. Sections 9(9) and 9(10) of the *Police Services Act* provide for recovery of these funds but collection had not been actively pursued;
- a number of municipalities are not paying for all OPP staff that perform municipal policing services under the terms of their contract. We estimate that these costs amount to well over \$2 million per year; and
- for several contracts, no overtime is charged for constables who were originally contracted to the municipality. Overtime costs are charged back to municipalities only in

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more recent contracts or where municipalities have increased the number of officers assigned.

## **RECOMMENDATIONS:**

The Ministry, in conjunction with the OPP, should:

- *more actively pursue eliminating inequities in the financing of municipal police services;*
- *collect all payments due but still in arrears; and*
- *ensure that all municipalities are consistently charged on the basis of full cost recovery.*

## **MINISTRY RESPONSE:**

*The Ministry is committed to the principle that everyone should pay their fair share of policing costs. In light of fiscal circumstances facing municipalities today, this principle must be carefully applied to individual municipalities so as to avoid undue hardship and to ensure fairness for those currently paying for policing and those which will be required to pay for policing.*

*Consequently, the Ministry is conducting further research and analysis to determine the most effective ways to remove inequities in the financing of municipal police services taking into account technical and operational issues such as:*

- *the revenue base of individual municipalities including the relationship of the tax base and grants;*
- *the appropriate police costing reference, that is, per capita versus per household; and*
- *the elements of an implementation plan which includes reasonable timelines.*

*The Ministry has also identified the need to address the issue of municipal contracts being in arrears more effectively. We continue to follow up with individual municipalities with respect to their obligations and are exploring other options with respect to pursuing payment.*

*Older municipal contracts that are not at full cost recovery will be addressed either in the context of equitable financing or renegotiation. The current costing formula will be reviewed in 1994.*

## **FLEET MANAGEMENT**

The OPP's Transport Branch administers the fleet, supplies mobile equipment to meet the transportation needs of the OPP and its ancillary services, and provides a maintenance and repair program.

Acquisition and disposal of appropriate vehicles is carried out by the Ministry of Transportation, which has primary responsibility for the management of all government-owned vehicles. The OPP operates about 1,700 vehicles, including about 100 tactical and rescue

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vans and various other transportation equipment. Expenditures on purchases and repairs were about \$16 million in fiscal 1993/94.

At the time of our audit, an internal task force had recently completed a study of several aspects of the OPP fleet, including the information system, fuel management, decentralization, lease or buy options, and equipping and servicing vehicles. However, its report had not yet been finalized. As such, we could not comment on its tentative recommendations.

Given the timing and comprehensive nature of the study, our audit emphasis was limited to the utilization and maintenance of vehicles. We concluded that maintenance requirements were satisfactorily adhered to. However, savings would be possible from rescheduling the delivery dates of replacement vehicles to more closely match requirements. For instance, we noted that over 200 vehicles purchased in 1993 remained in storage for over six months (averaging eight months) before being put into use. This problem existed in previous years as well. We estimated savings from interest carrying charges alone to be about \$200,000. The costs of storage and depreciation represent further savings opportunities. We provided further details in a management letter to OPP management.

#### **RECOMMENDATION:**

**The OPP should review the timing of vehicle purchases with a view to minimizing the length of time vehicles are stored prior to use.**

#### **MINISTRY RESPONSE:**

*We agree with the comments respecting exceptional lengths of storage for some vehicles. The OPP and the Organizational Review Project are exploring options to address this problem. Alternatives to the specified acquisition process are being reviewed with the recognition that changes in this area may be out of the Ministry's control.*

*We believe that, except for speciality type vehicles, it may be possible to work within 60-day delivery windows. Our goal will be minimal time in stock.*

# Driver Licensing and Control

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The Ministry of Transportation is responsible for driver licensing and control under the authority of the *Highway Traffic Act* and applicable Regulations. The stated purpose of the "Licences" part of the Act is to protect the public by ensuring that the privilege of driving is granted to, and retained by, only those individuals who demonstrate that they are likely to drive safely.

The Act sets out the conditions under which an individual may operate various types of motor vehicles. The Ministry's related responsibilities include administering driver qualification tests, maintaining records of drivers' qualifications and performances, and developing and administering driver improvement and control activities. There are about 6.7 million licensed drivers in Ontario.

In fiscal 1993/94, the Ministry's driver licensing and related activities generated approximately \$146 million in revenue:

	(\$Millions)
Licence Fees	107
Record Search Fees	17
Driver Test Fees and other	22

Driver licensing and control is the responsibility of the Ministry's Safety and Regulation Division. The costs of driver licensing and control were estimated by the Ministry to be about \$51 million in the 1992/93 fiscal year, including \$7 million for special initiatives such as the Graduated Licence System. The Ministry no longer has a system which permits separating the cost of driver licensing and control from other expenditures related to the Ministry's Safety and Regulation program. The Ministry estimates that there are the equivalent of about 750 full-time staff allocated to this program.

The Ministry operates five regional offices, 15 district offices, 67 driver examination centres, and six driver and vehicle licence issuing offices which accept applications, administer tests, and/or handle enquiries for new and existing drivers. In addition, there are 290 private driver's and vehicle licence issuing offices which receive commissions for services rendered on the Ministry's behalf, including drivers' licence applications and renewals.

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# OBJECTIVES AND SCOPE

Our audit objectives were to assess:

- the Ministry's compliance with legislation governing driver licensing and control;
- the adequacy of the procedures in place to measure and report on the efficiency of operations and the effectiveness of driver licensing and control activities;
- the adequacy of controls over revenue from driver licensing and related services; and
- security and controls over driver information systems.

Our audit was conducted at the Ministry's head office in Toronto and at its financial management and data processing operations in Kingston. In conducting our audit, we reviewed relevant work of the Ministry's Internal Audit Branch and reduced our work where applicable.

## AUDIT OBSERVATIONS

### COMPLIANCE WITH LEGISLATION

The *Highway Traffic Act* sets out the minimum qualifications needed to obtain drivers' licences.

Based on our tests, we found that the Ministry is generally complying with legislation governing the issuance and renewal of drivers' licences. However, we noted that controls to prevent individuals from obtaining more than one driver's licence were weak.

In addition to serving as proof of driving privileges, a driver's licence can frequently be used for identification. Consequently, drivers' licences are desirable documents, and some individuals may be motivated to obtain more than one licence.

Each driver's licence contains a 15-character identifier which is generated by the Ministry's computer system (the Driver System) based on the surname, first name, middle initial, birth date and sex of the licensee. In cases where all of these identifiers coincide for two or more individuals, the system adjusts the identifiers to ensure that each licence issued is unique.

If a licensed driver applies for another licence and fills out the second application form differently from the first (for instance, by using a variant of the applicant's first name), the current Driver System would not detect the duplication and would generate a new licence with a different identifier. This could allow an individual who has a poor driving record or whose driver's licence has been suspended to obtain another licence.

Currently, clerks processing new applications are required to check the Driver System database for an existing licence when an applicant indicates having been previously licensed. The Ministry informed us that changes to the Driver System to be introduced with the new Graduated Licence System will be designed to automatically initiate a database check for every applicant. However, this will not detect problems with existing licensees.

An individual may also obtain an additional driver's licence number through re-application after a legal name change. Unless the applicant advises the Ministry of the situation, it is unlikely to be detected. In its response to a recommendation in our 1989 audit report, the Ministry indicated that it would investigate the feasibility of establishing an interface with the Ministry of Consumer and Commercial Relations for obtaining notice of legal name changes. Currently, there is no system in place to obtain legal name change information from the Ministry of Consumer and Commercial Relations.

The Ministry is occasionally advised by police and others when individuals are suspected of having more than one licence. Ministry staff must verify whether the reported licence numbers belong to a single individual and, if so, combine the records into one complete record. We were advised by Ministry staff that in 1993 multiple records were combined for nearly 600 drivers. At the time of our audit, about 1,100 reports of suspected multiple drivers' licences, including some more than two years old, were awaiting investigation or combining by the Ministry.

The Driver System supports the Ministry's driver improvement and control functions. Regulations under the *Highway Traffic Act* require the assignment of demerit points to drivers for certain driving-related convictions. However, key driver control activities such as interviews and suspensions, which are activated by demerit point accumulation, may not be triggered if demerit points are spread over more than one driver record. Critical medical information may be recorded on only one of the licences. Accordingly, information sold to insurance companies could be incomplete.

#### **RECOMMENDATION:**

**The Ministry should take steps to avoid having multiple drivers' licences issued to one person such as:**

- promptly investigating all reports of multiple drivers' licences;
- taking appropriate action to correct its records; and
- investigating the feasibility of obtaining name change information from the Ministry of Consumer and Commercial Relations.

#### **MINISTRY RESPONSE:**

*The Ministry is undertaking several initiatives which will significantly reduce the occurrence of multiple drivers' records. These initiatives include:*

- *introduction of a new, one-piece plastic driver's licence card with digitized photo, signature and magnetic stripe to replace the existing two-part licence;*
- *part of the new licence project includes the development of a Client Basic Information Database (CBID) which will act as the central repository of basic information which will assist in screening for fraud in licence applications. CBID is currently in the design developmental stage;*
- *contender checking (more comprehensive search routines) will be implemented as part of the on-line functions in the Graduated Licensing System;*
- *creation of master records for novice drivers at the time of application; and*
- *training additional staff to investigate and combine records of individuals with more than one driver's licence number.*

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***The Safety and Regulation Division is currently developing a system architecture with a view to migrating the current legacy (old inherited) systems to more flexible systems, which will facilitate redressing multiple record problems.***

***With regard to obtaining name change information from the Ministry of Consumer and Commercial Relations (MCCR), we recognize the benefits of linking our driver and vehicle systems with MCCR's birth and death registrations. We will evaluate the legality of adjusting a driver's name on our records based on this transaction with MCCR. Other operational issues will be considered in a corporate client basic information directory.***

## **OPERATIONAL EFFICIENCY**

### **MEDICAL INFORMATION**

The *Highway Traffic Act* and Regulations specify minimum standards of medical fitness for drivers.

The Ministry obtains medical information by requiring applicants for a new driver's licence or licence renewal to indicate whether they have a medical condition that may affect their ability to safely operate a motor vehicle. As well, periodic medical reports are required for applicants for classified licences.

The *Highway Traffic Act* also requires licensed medical practitioners and optometrists to report any individual who, in their opinion, is suffering from a condition that may make it dangerous for that person to operate a motor vehicle.

These reports, as well as those periodic reports and applications that report medical conditions, are referred to as "complex" medical reports and require review by Ministry staff.

In 1992/93, approximately 37,000 of the 130,000 medical reports received by the Ministry were complex. The remaining 93,000 reports did not require investigation. Based on our testing, these were properly input into the Driver System.

Each complex medical report is reviewed with regard to the driver's medical history and licence class. Reviewing some complex medical reports may take several months where there is a need for additional information or to consult with medical advisors. The Ministry may request specialist assessments or other information in order to make a decision.

Complicated cases are referred to the Ministry's Medical Advisory Committee, which includes various medical specialists. Decisions made by the Medical Advisory Committee are recommended to the Ministry for final decision. Possible actions include downgrading a licence to a lower classification and licence suspension.

The Ministry has not established performance standards for processing medical reports. At the end of January 1994, more than 12,000 complex medical reports were awaiting decision. More than 8,000 of these reports, some as much as eight months old, had not yet been reviewed.

The Ministry has made numerous changes to its medical review processes in an effort to better manage its workload and attain greater efficiency. For example, procedures were

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introduced to prioritize incoming reports to ensure that urgent reports receive prompt attention.

All unsolicited medical reports are considered urgent since they represent the highest potential risk in the event processing is delayed. In addition to taking priority over most other medical reports, unsolicited reports frequently require more time to assess. This is partly because of the absence of a standard reporting format which would facilitate review and help ensure all necessary information is included. We were advised that the Ministry is working with the Ontario Medical Association in drafting a standard form for unsolicited medical information.

While the majority of backlogged reports are not classified as urgent, the delay in processing these reports carries a safety risk that individuals are operating vehicles which they should not be driving.

If incoming volumes of medical reports continue at the current rate or increase, the backlog of unprocessed medical information is unlikely to decrease.

#### **RECOMMENDATION:**

**The Ministry should establish performance standards for processing medical reports and ensure that appropriate action is taken to eliminate the current backlog.**

#### **MINISTRY RESPONSE:**

***A plan is in place to eliminate the backlog by the end of 1995 and to significantly improve the turnaround on all medical reports. We are presently retraining staff, implementing a team concept and continuing with improvements to the document imaging system to improve productivity and support ongoing streamlining efforts.***

***Corporate resources have been reallocated so that more staff may be hired. We will be working with the teams to establish performance standards for all types of medical documents and developing tools for teams to monitor progress against these standards.***

#### **CONVICTIONS**

The date and nature of all driving-related convictions under the *Highway Traffic Act*, the *Criminal Code of Canada* and municipal by-laws are recorded by the Ministry on individual driver records based on information received from the Ministry of the Attorney General. In 1992, more than one million convictions were recorded on driver records.

Demerit points are assigned to drivers' records for driving-related convictions. As mentioned earlier, driver improvement and control activities are primarily set in motion by accumulated demerit points. Accordingly, it is important that convictions be recorded promptly. As well, some convictions include court-ordered licence suspensions. The majority of convictions under the *Highway Traffic Act* are recorded on the Ministry's Driver System through an electronic interface with the Ministry of Attorney General's court system.

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Criminal Code convictions, amendments, corrections, records of appeal, appeal dispositions, and convictions concerning young offenders must be recorded by a series of mainly manual steps.

We found that information from manually processed conviction documents was generally recorded within a reasonable time. This represents an improvement over 1988 when we reported a six-month backlog in this area.

## **CUSTOMER SERVICE**

The program provides many services to the public including issuing new and renewal licences, scheduling and delivering road tests, and responding to enquiries made in person and by telephone.

The Ministry recognizes that the level of customer service provided for many of its services is less than satisfactory. In August 1993, a Ministry Customer Service Working Group was formed to develop an accountability framework for customer service. Its mandate included developing performance indicators to measure customer service, introducing a reporting system to track ongoing results, and implementing a management process to ensure that customer service problems are adequately addressed.

By February 1994, customer service standards had been developed in four areas:

- time required to get a road test appointment;
- telephone service;
- counter service; and
- proximity to service for Ontario residents.

For example, a proposed level of service standard is that 80% of road tests should entail a less than two-week wait. At the time of the study, the average wait was eight weeks. In large urban centres it was up to 16 weeks. The Ministry is planning enhancements to address these problems.

To address telephone service problems, the Ministry plans to upgrade its telephone system so that more calls can be managed electronically.

The Ministry has implemented a number of other initiatives to improve customer service. For example, in November 1992, the driver's licence renewal cycle was changed from three to five years. This reduces some of the workload at counters and other areas of the Ministry. In January 1993, the Ministry introduced self-service kiosks on a pilot basis to enable customers to complete transactions using a credit card.

The Ministry is currently reviewing other recommendations made by the Customer Services Working Group, such as expanding kiosk operations and conducting customer surveys, to arrive at an appropriate implementation strategy.

The conditions which caused customer services to be judged less than satisfactory will persist until the Ministry takes action to improve its service delivery. We will follow up on the Ministry's efforts to address these recommendations after sufficient time has elapsed for them to be implemented.

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## MINISTRY COMMENTS:

*Since the Ministry places considerable importance on customer services, there are the following comments on the Auditor's Report pertaining to this issue:*

*The Customer Service Working Group was established in August 1993 with a specific purpose:*

- *improving business management processes for customer service performance in the Safety and Regulation Division;*
- *communicating service situation and progress through performance indicators for management, staff and customers;*
- *developing a "customer service report card"; and*
- *developing a case for service improvement and management throughout the Ministry using the Safety and Regulation examples.*

*To improve customer service, 1,400 workstations utilizing up-to-date computer technology were installed at Ministry and private issuers' offices in early 1993.*

*Additional driver examiners were hired for 1994/95 to meet the customer service standard for road tests. As a result, though the volume of road tests has increased, the backlogs have been reduced. For example, in July of 1993 the average wait time for road tests was 10.8 weeks. As of July 1994, it was 8.5 weeks.*

*With regard to the fact that "the Ministry plans to upgrade its telephone system so that more calls can be managed electronically," Interactive Voice Response Systems have been implemented in Central Region to increase productivity through a better road test booking system.*

*Copies of the final report from the Customer Service Working Group have been forwarded to the audit team for their examination and perusal.*

## MEASUREMENT AND REPORTING OF OPERATIONAL EFFECTIVENESS

One of the Ministry's goals is to improve road safety. Under the *Highway Traffic Act*, the Ministry is required to collect and report road accident statistics annually. These are published in its *Ontario Road Safety Annual Report* which details all reported collisions, including time and location, types of vehicles involved, ages of drivers involved, and resulting injuries and fatalities. This information is critical because it allows the Ministry to assess driver performance and to determine what actions should be taken to influence the behaviour of drivers.

Statistics indicate that driver error is the primary cause of most collisions. Therefore, the Ministry's driver licensing and control activities play an important role in the achievement of road safety. These activities include: establishing qualification standards; monitoring driver performance and intervening where necessary; developing and implementing effective driver improvement measures; and promptly revoking driving privileges when warranted.

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In addition to saving lives, the Ministry estimates that a 1% reduction in accidents would save \$69 million in health care, property damage and other costs. The Ministry has initiated a number of research projects and introduced changes to improve road safety such as the Graduated Licence System and reviewing driver performance monitoring and intervention measures.

## **GRADUATED LICENCE SYSTEM**

In the spring of 1994, the Ministry introduced the Graduated Licence System. Under this system, all new drivers are now required to obtain a minimum of 20 months driving experience before being granted full driving privileges. During that time they are required to pass basic and advanced road tests. Driving privileges are restricted as to where, when and with whom new drivers may drive during the learning period. Restrictions are reduced during the second phase of the process.

Over time, statistics have shown that the accident rate for young drivers, who make up over 60% of new drivers, is disproportionately high. For example, in 1991, drivers aged 16 to 24 represented 23% of drivers involved in accidents and 22% of drivers killed, although they accounted for only 14% of the licensed driver population.

The Ministry is still developing the advanced road test to be taken at the end of the second phase of the Graduated Licence System. The proposed test will measure highway and defensive driving skills which were not emphasized in the past. The Ministry also plans to introduce more rigorous assessment methods and improve driver examiner training to ensure consistent assessments.

The Ministry plans to monitor and evaluate the effectiveness of the Graduated Licence System by collecting and analyzing relevant driver performance statistics, assessing the performance of the advanced road test and conducting other longer-term research projects such as reviewing driver education. We will follow up on the Ministry's actions after sufficient time has elapsed to collect the necessary statistics.

## **DRIVER PERFORMANCE MONITORING AND INTERVENTION**

The Ministry monitors driver performance in order to identify those drivers most likely to be involved in accidents. Driver records include each driver's licence history, convictions, collision and medical information.

The Ministry's intervention measures are intended to improve driving and, accordingly, reduce the number of accidents. Warning letters, driver interviews, and licence suspensions are used, depending on the number of demerit points accumulated by a driver within a specified period of time.

The Ministry has investigated the effectiveness of these intervention measures. For example, a 1988 survey of drivers who had been suspended found that 34% admitted to driving while suspended and less than one-third considered suspensions to be an effective deterrent. In 1991, the Ministry initiated a research project to evaluate the effectiveness of the demerit point system. The project found that there were other systems which could better identify drivers who have a higher than average probability of being involved in accidents. For instance, in addition to convictions, other systems considered a driver's age, gender and accident record to assess the likelihood of that driver having an accident.

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We understand that any action in response to these research results has been deferred pending the implementation of the Graduated Licence System.

#### **RECOMMENDATION:**

**The Ministry should address the deficiencies found in its driver performance monitoring and intervention methods.**

#### **MINISTRY RESPONSE:**

*The Ministry has developed the Ontario Road Safety Agenda, which includes a comprehensive plan to improve the behaviour of drivers. One of the steps in the Agenda is a more comprehensive treatment program for novice drivers with due consideration to their collision involvement.*

*The Ministry's safety initiatives will concentrate on each segment of the driver population. The introduction of graduated licensing is the centrepiece of the move to enhance the learning and experience of young and new drivers. However, efforts will also be directed toward older drivers, for example, community safety programs and elderly testing research, as well as toward problem drivers and impaired drivers.*

*A Three-Year Business Plan has been prepared to implement the Road Safety Agenda. The Plan establishes the resource requirements and performance monitoring mechanism for the Driver Program and other licensing and enforcement activities.*

## **REVENUE**

### **COLLECTION AND REPORTING**

Fees received by the Ministry are recorded on a sub-system of the Ministry's Vehicle Registration System. This is done by staff at the Ministry's offices and by agents where fees are paid.

Ministry offices and agents provide the Ministry's Kingston office with summaries of receipts by type, supported by individual transaction forms; bank deposit records; and receipt reports generated by the Vehicle Registration System.

Clerks compare computer reports with the banking records and summaries. The revenue checking and reconciliation process is labour-intensive and time-consuming. In 1993, the Ministry employed 34 clerks and 2 supervisors at an annual cost of approximately \$1.5 million to perform this task. The process is subject to undetected errors since the volume of transactions makes 100% verification impossible.

Except for licence renewal fees, fees are not recorded by service type. Accordingly, the Ministry is unable to determine the precise amount of revenue received by service type. Instead, approximations are made based on volume statistics obtained from the Driver System. Services other than licence renewals generated almost \$33 million in the 1993 fiscal year.

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In 1989, in response to concerns raised by the Ministry's internal auditors, a Ministry Liaison Committee reported that a true reconciliation of revenue was unachievable in the short term. Corrective action is still outstanding.

**RECOMMENDATION:**

The Ministry should undertake a cost-benefit analysis of automating the driver licensing revenue reporting process. Potential benefits include improved accuracy and control and the possibility of saving labour costs.

**MINISTRY RESPONSE:**

*At present, apart from licence renewal fees, fees amounting to about \$33 million in 1993 are not recorded by service type on the on-line reporting systems. However, they are recorded by service type manually.*

*The bulk of the driver licensing transactions will be on-line by service type with the implementation of Graduated Licensing in 1994. Some miscellaneous transactions and special handling will still be handled manually.*

*The remainder of the transactions that are not automated in the Graduated Licensing System, or other system improvements in 1994, will generate about \$548,000 only in 1994/95. \$480,000 of this amount will be generated from the sale of maps and publications.*

## **REVENUE ADJUSTMENTS**

Adjustments to driver licence revenue may be initiated by any head office revenue clerk. These adjustments include revisions to commissions paid to private issuing offices and bank reconciliation adjustments. Currently, there is no requirement for clerks to obtain supervisory approval before recording these adjustments, some of which involve amounts exceeding \$10,000. Supervisory approval should be required to ensure that these transactions are correct and proper.

**RECOMMENDATION:**

The Ministry should develop appropriate controls to address the need for supervisory approval for adjustments.

**MINISTRY RESPONSE:**

*The Ministry will implement the appropriate processes for supervisory approval combined with random checking of adjustments.*

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# INFORMATION SYSTEMS SECURITY AND CONTROL

## DATA SECURITY

The Ministry releases information from driver records to police upon request and to insurance companies and individuals upon payment of a prescribed fee. However, the Ministry considers driver addresses confidential and does not release them to individuals.

Driver records are maintained on the Ministry's Driver System. The Driver System allows viewing of driver records through its "on-line enquiry mode"; currently, data may be altered or updated only through the system's "batch processing mode." Once users have logged on to Driver System terminals, they may access the on-line enquiry mode. The altering or updating of data is restricted through additional controls. However, there are no access controls specific to the viewing of drivers' records; consequently, users' enquiries are not traceable to specific users.

The lack of access controls increases the risk of unauthorized viewing of data and limits the Ministry's ability to detect any misuse. For example, confidential information may be viewed by an unauthorized user or data may be released without payment of the required fees.

The Ministry's internal auditors recommended in 1991 that password protection and a facility to log inquiries be added to the Driver System. The response to the report indicated that this would likely not be possible until 1994. However, "until that time, manual procedures and physical security measures will be utilized to provide access security." Appropriate corrective action has not been taken.

### RECOMMENDATION:

**The Ministry should strengthen controls to restrict on-line access to drivers' records.**

### MINISTRY RESPONSE:

*In order to protect the personal privacy of individuals, the Ministry's policy since January 18, 1993 has been to restrict public access to residence addresses on driver vehicle and carrier abstracts except for Authorized Requesters who are under contract with the Ministry to ensure confidentiality and non-disclosure of information.*

*The Ministry acknowledges that there are weaknesses with the on-line security access to the Driver System. The Driver System was designed in the 1960s and, as a result, it lacks the sophistication of more current systems. However, as we rebuild the Driver System, appropriate security controls will be incorporated.*

*With the development of the CBID (Client Basic Information Database), we will have the capability to trace on-line access to all driver records. This database will commence operations in late 1995 and will be implemented in phases.*

*The Ministry also microfilms and indexes all public requests for access to driver and vehicle data. This will enable the Ministry to trace any enquiry and identify the party who made the enquiry.*

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*In addition, a Ministry Directive is being prepared to outline employee responsibilities with respect to data security. The directive will be issued in the fall, 1994 which will provide guidelines regarding:*

- an employee's role in the use of data;*
- protection of data entry terminals and equipment from unauthorized access; and*
- the use and security of passwords.*

*In the future, it is planned that new employees will be required to sign a "Security and Disclosure Certificate."*

# Municipal Roads Subsidies

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Municipal Roads subsidies are part of the Ministry of Transportation's Urban and Regional Transportation Program. The objective of Municipal Roads subsidies (commonly referred to as the "Municipal Roads Program") is to provide for safe and efficient movement of people and goods and to provide financial and technical assistance to municipalities towards the development, maintenance and operation of the municipal road network.

To accomplish this objective, the Ministry of Transportation provides funds to municipalities for the maintenance and construction of roads and structures such as bridges and culverts. The program operates under the authority of the *Public Transportation and Highway Improvement Act*, which broadly defines the roles and responsibilities of municipalities and the Ministry concerning road-related activities such as financing, construction, maintenance, land acquisition and ownership.

The Act also specifies the types of expenditures that are eligible for provincial funding and the maximum percentage the provincial government will fund. Generally, provincial funding is limited to 50% of road improvement costs. However, there are exceptions. For example, if a municipality warrants additional consideration, the cost of a bridge or culvert may be subsidized up to 100%, and all other road improvements may be subsidized up to 80%.

The program is delivered through the Ministry's head office and regional and district offices. Municipal funding allocations are determined at head office, guided by formulas which have been in place for many years. Input is provided by Ministry regional and district offices. All allocations are approved by the Minister. The district offices, under the direction of the regional offices, are responsible for dealing directly with the municipalities, offering guidance on construction and maintenance procedures, authorizing the payment of subsidies and maintaining day-to-day contact.

For the purpose of granting basic subsidies, the Ministry has divided municipalities into three categories:

- an "upper tier" which consists of 39 counties and regional municipalities responsible for approximately 21,000 kilometres of roads;
- a "large lower tier" which consists of 137 large municipalities responsible for approximately 42,000 kilometres of roads; and
- a "small lower tier" which consists of approximately 700 other municipalities, primarily small townships, towns and villages responsible for approximately 63,000 kilometres of roads.

During the 1993/94 fiscal year the Ministry's funding for this program totalled \$708 million.

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## OBJECTIVES AND SCOPE

The objectives of our audit were to assess whether procedures were in place to adequately ensure compliance with legislation, and to measure and report on the performance of the program with regard to economy, efficiency and operational effectiveness.

In conducting the audit, we reviewed the operations related to Municipal Roads subsidies at the Ministry's head office and district offices, and the work of the Ministry's Audit and Evaluation Services Branch and the Municipal Audit Bureau.

## AUDIT OBSERVATIONS

While the Ministry provided funding for eligible expenditures within the broad limits set by the *Public Transportation and Highway Improvement Act*, we observed that significant improvements are required in the disclosure of program expenditures and in management and control practices to achieve:

- clear identification of capital and maintenance expenditures to the Legislature and the public;
- equitable allocation of funds to municipalities;
- effective monitoring, evaluation and taking corrective action to ensure program funds are spent in an economic and efficient manner; and
- appropriate road maintenance standards.

Recommendations to assist in attaining these results are included in our report.

## ESTIMATES PROCESS

The Ministry's *Expenditure Estimates* and the *Public Accounts of Ontario* both show all municipal road subsidies as capital expenditures. For example, the 1992/93 *Public Accounts* reported all of the \$753 million spent on Municipal Roads subsidies as capital expenditures. In fact, more than \$400 million had actually been spent on maintenance activities such as winter control (for example, snow ploughing, sanding and salting), grading and ditching.

Because no distinction is made between operating and capital subsidies, it is not possible for the Legislature to determine what proportion of Municipal Roads subsidies is provided for maintenance and how much is for capital.

At the same time, the Ministry's two other municipal transfer payment programs, Municipal Transit and Municipal Airports, do differentiate between capital and operating subsidies.

## TRANSFERS FROM CAPITAL TO MAINTENANCE ALLOCATIONS

Though the Ministry determines separate subsidy allocations for maintenance and construction activities, it allows municipalities to freely transfer subsidy allocations between these activities. More specifically, the Ministry will allow municipalities to use a portion of

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their construction allocations to subsidize maintenance activities. We understand that this practice has been allowed for a number of years.

Several municipalities have underspent their capital allocations, but have overspent on their maintenance activities. We noted that, in 1992/93, nine municipalities had transferred to maintenance approximately 25% of the \$15 million they were allocated for construction. Such transfers may adversely affect the road infrastructure by postponing repairs until major reconstruction is required. In fact, all of these municipalities consistently had a low percentage of good road conditions relative to other similar municipalities.

This issue was also identified by the Ministry's internal auditors in 1991. At that time, the Director of the Municipal Roads Branch responded that "the manner in which municipalities distribute road subsidies between maintenance and construction as compared to the actual allocations has been a matter of concern within the Ministry for some time." The Director also stated that there were no plans at that time to restrict the movement of allocated funds between construction and maintenance.

#### **RECOMMENDATIONS:**

**The Ministry should inform the Legislature and the public of the portion of Municipal Roads subsidies allocated to operating expenditures and the portion allocated to capital expenditures, both in the *Expenditure Estimates* and in the *Public Accounts of Ontario*.**

**Transfers from capital to maintenance should require Ministry approval. The Ministry should ensure that these transfers do not adversely affect the road infrastructure.**

#### **MINISTRY RESPONSE:**

***The Ministry of Transportation has initiated discussions with the Treasury Board Division on this issue. The Municipal Roads Office is in the final stages of developing an improved integrated program administration system called the "Manage Grant Payment System." The new system is designed to allow the tracking and administration of subsidies and payments for operating accounts separately from capital accounts.***

***We will be in a better position to respond to this recommendation after the conclusion of our discussions with Treasury Board Division of the Ministry of Finance.***

***The Ministry has now restricted the option of moving municipal subsidies between maintenance and construction.***

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## MINISTRY FUNDING METHODS

The program provides two types of subsidies to municipalities—basic and supplementary. Basic subsidies are provided for both road construction and maintenance. Supplementary subsidies are granted on a case by case basis to help with larger capital construction projects and with equipment purchases.

The Ministry divides available funding between basic and supplementary categories. For the 1993/94 fiscal year, Ministry financial information indicates that of the \$708 million in funding, Ontario municipalities received \$596 million in basic subsidies and \$88 million in supplementary subsidies. The remaining \$24 million represents other expenditures of the program.

### BASIC SUBSIDIES

The Ministry divides the basic subsidy funds into six parts—an amount for construction and an amount for maintenance for each of the three categories of municipalities. Historical expenditure trends are used as a guide to determine allocation levels for the three categories of municipalities. Provincial priorities for basic subsidy funding are not established.

Basic subsidies are allocated to municipalities based, in part, on six formulas—again, one for construction and one for maintenance for each of the three categories. The formulas incorporate as many as 15 variables to arrive at a recommended amount of funding. Variables include such factors as the kilometres of roads a municipality has, its needs, its population, its past expenditures and its ability to raise money. Past expenditures are the most significant variable for maintenance subsidies. For construction subsidies, the most important factor is need.

Current practices for allocating basic subsidies do not ensure an equitable distribution of funds among municipalities. Internal reviews by Ministry staff acknowledge that the formulas used to calculate basic subsidies are not addressing the identified needs effectively and do not reward good road management practices.

We were advised by Ministry staff that action to address these reviews was delayed because the Province had been examining its relationship with municipalities.

### THE ROLE OF FORMULAS IN ALLOCATING SUBSIDIES

The formulas were introduced in the mid-70s. Over the years, they have been refined and adjusted, and, as a result, have become extremely complex. Ministry staff informed us that, due to this complexity and a lack of documentation, they cannot fully explain the detailed mathematical workings of three of the formulas.

We were advised that the formulas were originally intended to ensure an equitable distribution of funds to all municipalities. However, the results generated by three of the six formulas do not determine the actual amount of funding municipalities will receive. Instead, Ministry management uses the results as a guide to determine whether to increase or decrease the amounts provided to each municipality relative to its previous year's allocations.

Ministry staff acknowledge that the formulas determine the ideal line on which funding for all municipalities should fall and that, theoretically, municipal allocations could be

adjusted annually to conform to the formulas. However, rather than making large changes in municipal allocations from year to year, the Ministry has preferred to adjust individual allocations by moving them to the formula amount at a more acceptable rate.

Municipalities which are significantly over or underfunded have tended to remain that way. For instance, the Ministry's "Municipal Roads Program Repositioning Report" stated that, in 1992, 28 municipalities were funded beyond the amounts determined by their construction formulas. We noted that, in 1993, 37 large lower-tier municipalities were funded above the amounts determined by their construction formulas. Three of the most significant examples were allocated a total of \$9.7 million when the formula indicated \$4.1 million:

	Percentage Actual Funding was Above Formula Results
Municipality A	210%
Municipality B	120%
Municipality C	75%

In addition, the formula calculation indicated that three large lower-tier municipalities had no construction needs. Nevertheless they were allocated construction subsidies ranging from approximately \$65,000 to \$200,000.

At the same time, a number of large lower-tier municipalities received significantly less for construction than the formula indicated they needed. For example, three municipalities received a total of \$9.4 million while the formula indicated that they should have received \$23.7 million:

	Funding Received as % of Formula Results
Municipality D	35%
Municipality E	45%
Municipality F	20%

Also in 1993, 13 large lower-tier municipalities received significantly more funding for maintenance than their formula indicated they needed. For example, three municipalities received a total of \$14.1 million while the formula indicated that they needed \$9.7 million:

	Percentage Actual Funding was Above Formula Results
Municipality G	75%
Municipality H	50%
Municipality I	20%

At the same time, a number of large lower-tier municipalities received significantly less for maintenance than the formula indicated they needed. For example, three municipalities received a total of \$4.1 million while the formula indicated a need for \$5.3 million:

	Funding Received as % of Formula Results
Municipality J	75%
Municipality K	30%
Municipality L	75%

## ALLOCATIONS FOR CONSTRUCTION

The construction funding formulas for upper-tier and large lower-tier municipalities are based on the road needs of the municipality, which are determined by various factors, including ability to pay. For small lower-tier municipalities, the main factors are system kilometres, types of road and population.

In 1993/94, the program allocated \$224 million for basic construction subsidies to upper-tier and large lower-tier municipalities. In various internal documents, the Ministry has acknowledged that providing construction subsidies based on needs as they are currently determined should be reassessed. We were advised by Ministry staff that needs-based funding formulas are being reviewed with a view to providing a greater incentive for good road and bridge management.

"Construction needs" fall into two categories—the need for resurfacing existing roads and the need for reconstruction and new construction. The majority of construction is essentially remedial; constructing new roads, bridges and other structures is less common.

To determine needs, Ministry district staff, in conjunction with municipal staff, conduct annual road reviews in upper-tier and large lower-tier municipalities. Road conditions are assessed and a numerical rating is assigned to each road segment reviewed. District staff assign the ratings based on their interpretation of guidelines provided by the Ministry. A needs list is subsequently prepared for each municipality for construction funding.

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Our audit revealed that road assessment practices varied significantly. For example, some staff reviewed road systems on a cyclical basis while others reviewed only a few road segments on an ad hoc basis.

Studies conducted by the Ministry indicate that consistency of road ratings varied among the district staff. In addition, the 1993 draft "Funding Alternatives Report" stated that the assessment methodology is "somewhat subjective."

Once the needs are identified, the "system adequacy" of a municipality's road network is calculated. System adequacy refers to the percentage of a municipality's existing road network that is not in need of any immediate repair or reconstruction. A high system adequacy percentage indicates good road conditions.

The current construction funding process does not provide sufficient incentive for municipalities to reduce their road needs. This was acknowledged in a recent draft report by the Ministry where it noted that "some funding methods such as road needs studies actually reward inefficiency." In fact, a municipality that reduces its road needs through good road management is, in effect, penalized because the amount of funding it receives will be less than if it managed poorly and showed a higher need.

System adequacies have generally improved in municipalities where annual road funding has increased. However, we noted two municipalities where construction funding over the past three years increased between 25% and 50%, yet system adequacy stayed the same or decreased.

The method for determining needs is open to manipulation. Although funding is received, a municipality may decide not proceed with a project. Retaining a project on the list of needs will increase the funding that a municipality receives. For example, in one case, a municipality carried a proposed new road project on its road needs list for over 20 years. This increased the amount of funding this municipality received by a total of \$8.6 million before the Ministry deleted the project from the list. The Ministry has now instituted procedures to ensure that this does not happen in the future.

## **ALLOCATIONS FOR MAINTENANCE**

The Ministry's subsidy guide stipulates the types of maintenance activities that are eligible for subsidy. These include catch basin cleaning, ditching, patching, grading and winter control.

From 1988/89 to 1992/93, the Ministry subsidized approximately 55% of total maintenance expenditures incurred by municipalities. In 1992/93, this amounted to \$424 million of total maintenance expenditures of \$789 million.

Like construction subsidies, maintenance subsidies do not offer an incentive for municipalities to reduce costs. Currently there are no provincial standards for municipal road maintenance activities. In the absence of uniform maintenance standards, the provincial government is in effect subsidizing different levels of maintenance expenditures in different municipalities.

Our analysis of maintenance expenditures showed large variations between municipalities. While differing needs due to traffic volumes and snowfall may account for some of the variances, they would not explain the ranges we noted. For example, in the upper-tier category, expenditures varied from \$5,000 to \$45,000 per kilometre. Similarly in the large

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lower-tier category, amounts varied from \$6,000 to \$35,000 per kilometre. The municipalities with higher costs received higher amounts of subsidy.

This issue was raised in our last audit of the program in 1988. In 1989 the Ministry indicated to the Public Accounts Committee that "variations in maintenance costs will be reviewed and that maintenance monitoring will be implemented." However, our audit found that other than a review of the summaries of maintenance expenditures filed with the municipalities' annual returns, the Ministry has performed no analysis of road maintenance expenditures.

Without uniform standards, Ministry staff are not able to effectively monitor municipal maintenance efforts or to decide whether subsidized maintenance activities are appropriate.

In 1989 the Public Accounts Committee recommended that: "The Ministry should ensure that its ongoing review of municipal maintenance eligibility standards and criteria be considered in conjunction with the Ministry's proposed monitoring of municipal road maintenance expenditures." The Committee was "of the opinion that municipal maintenance information and records be reviewed in conjunction with the Ministry subsidy, with the objective of establishing acceptable maintenance standards."

For example, winter control maintenance expenditures account for approximately 30% of the total maintenance expenditures incurred by municipalities. A review of the winter control expenditures of 59 municipalities from 1990/91 to 1992/93 showed large differences. These ranged from:

- a low of \$1,300 to a high of \$11,000 per kilometre for large lower-tier municipalities; and
- a low of \$1,500 to a high of \$15,000 per kilometre for upper-tier municipalities.

While there are differing needs due to severity of winter conditions and types of roadways, from a review of winter control policies for six upper-tier and four large lower-tier municipalities, we noted significant differences in levels of service and costs pertaining to frequency of snow ploughing, salting and sanding of roads. From 1990 to 1992, winter control expenditures for these municipalities averaged between 48% and 55% of their total road maintenance expenditures. Again, higher costs resulted in increased subsidies.

A Ministry report prepared in December 1991, the "Municipal Roads Program Repositioning Report," also identified the problem of funding different levels of maintenance service. For winter control funding, it proposed that an appropriate funding cap be determined based on minimum provincial standards for winter maintenance activities. It also recommended that, over the long term, funding for maintenance be based on a province-wide level-of-service maintenance standard.

The effect of basing funding on previous levels of expenditures was raised in 1993 in a Ministry report summarizing Ministry consultations with municipalities. The report stated that "the Ministry allocates funds to municipalities based on maintenance funding models and spending history." While funding is limited to eligible activities, the level of service, such as frequency of salting or promptness of snow clearance, is set by the individual municipality. Accordingly, "municipalities have no incentive to reduce their maintenance costs through improved efficiency of service or reducing service levels" since that may hurt the municipality's allocation the following year.

The Ministry, in various documents, has noted that its method of funding needs revision. In 1993 it produced a draft "Funding Alternatives Report" which proposed funding arrangements to replace the ones currently in use. The proposed arrangements were intended to be simpler, to promote efficiency and effectiveness, and to be equitable. We were advised that when the report has been finalized, the Ministry will consult with municipalities on the proposed changes.

## RECOMMENDATIONS:

The Ministry should change its funding mechanisms to ensure that:

- funding priorities are clearly established;
- funds are distributed equitably;
- good road management is encouraged;
- appropriate monitoring procedures are in place; and
- road maintenance standards are set.

## MINISTRY RESPONSE:

*The guiding objective of the Municipal Roads Program is to foster and encourage good management and control practices in using the available resources efficiently and effectively. The funding allocation procedure used to allocate the total subsidy available has been found to be a sound and equitable system that takes into account both the needs and the funding capabilities of municipalities. This system is complex and the funding models may not be "user-friendly." However, the system has served the Ministry well over many years and has been respected by the municipalities as being a fair method of subsidy distribution.*

*Municipalities establish priorities on a project by project basis. Ministry funding models and system adequacy targets are presently used to establish provincial priorities.*

*Responding to a climate of increasing economic pressures and a changing municipal/provincial relationship, the Ministry is conducting a major review of its funding program which it calls "Municipal Transportation Funding Alternatives." The audit recommendations are all addressed in the design of the new program being proposed for implementation in 1995.*

*District staff will be instructed to increase their monitoring and investigate significant disparities in maintenance costs charged by individual municipalities.*

*Road maintenance standards are indirectly established. The maintenance models currently used to generate allocations are based on a relative level of service between municipalities and the available funding. Road maintenance standards will be more clearly defined through the Municipal Transportation Funding Alternatives. Under this proposed system, municipal allocations will be based on a predetermined level of funding per kilometre of road.*

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## SUPPLEMENTARY SUBSIDIES

Supplementary subsidies are usually granted to smaller municipalities that would be unable to undertake certain construction projects or purchase equipment without additional assistance. Larger municipalities may also receive supplementary funding for large capital projects of particular interest to the provincial government.

To obtain supplementary funding, municipalities submit requests to the district offices. Requests are prioritized by district staff based on criteria and guidelines established by the Ministry. The typical criteria for supplementary allocation are the need for bridge and road rehabilitation and the purchase of equipment.

The requests are forwarded to the regional offices and the head office for review and final approval. We reviewed allocations at four district offices for 1992 and 1993 and found that all of the projects approved for supplementary subsidies in those four districts met the criteria established by the Ministry.

## PROGRAM MANAGEMENT

The Ministry publication *A Guide to Subsidy Policy—Municipal Roads Program* defines the construction and maintenance activities which may be subsidized and sets out the conditions that must be met for them to be eligible for funding. The *Public Transportation and Highway Improvement Act* requires municipalities to submit annual returns detailing receipts and expenditures in connection with their road systems. These returns include declarations by road superintendents or engineers and municipal treasurers that funds were spent for the purposes intended and are accurately reported.

## FINANCIAL CONTROLS AND COMPLIANCE WITH LEGISLATION

In our assessment of the financial controls, we noted good controls existed over the payment of subsidies. For example:

- proper segregation of duties existed for the calculation, authorization and payment of subsidies; and
- subsidies were calculated in accordance with legislation, and subsidy payments were in agreement with the allocation letters sent to the municipalities.

In addition, the Municipal Audit Bureau, which audits transfer payments to municipalities on behalf of a number of provincial ministries, carries out financial audits on municipalities to determine whether subsidies are being spent in accordance with legislation and Ministry of Transportation requirements. The Bureau selects municipalities to be audited in conjunction with Ministry district staff. The frequency of audits varies depending on the size of the municipalities. Large municipalities are audited more frequently.

In 1992/93, 348 municipalities that received \$561 million in grants were audited. Total audit adjustments for ineligible road-related expenditures amounted to \$2.6 million.

While the Bureau was effective in ensuring that only eligible items are claimed by municipalities, it did not attempt to determine whether systemic problems existed. For example, the Bureau would not determine whether incorrect interpretations of subsidy guidelines by municipalities indicated that subsidy guidelines needed clarification.

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## RECOMMENDATION:

The Ministry should request the Municipal Audit Bureau to analyze its findings to determine if systemic problems are the cause of ineligible claims. Where the Bureau identifies such problems, the Ministry should take appropriate corrective action.

## MINISTRY RESPONSE:

*Representatives from the Municipal Audit Bureau attend the Ministry's Municipal Training Seminars. As recommended, the Ministry will request the Municipal Audit Bureau to analyze its findings and will continue to liaise with it in identifying problem areas and potential program revisions that would help in program delivery and reduce the amount of time spent on municipal audit problems.*

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## MONITORING CONSTRUCTION ACTIVITIES

Construction subsidy guidelines list as eligible for subsidy such activities as acquisition of land, clearing of land, preparation of road beds, construction of storm sewers and paving of road surfaces.

All provincially-subsidized construction projects must meet Ministry standards. For each project planned for traffic volumes greater than 200 vehicles per day, municipalities are required to submit design criteria, detailed drawings and tender documents.

The Ministry ensures that projects meet its standards through the approval of submitted project documents and site inspections. Some discretion on the part of Ministry district engineers is allowed with respect to what documentation is acceptable.

From 1988/89 to 1992/93, provincial construction subsidies totalled approximately 40% of the total construction project expenditures reported by municipalities. In 1992/93 the Ministry paid \$286 million of construction expenditures totalling \$684 million.

## PROJECT APPROVALS

The submission by municipalities of the documents described above allows the Ministry to determine if a project will be designed or built to provincial construction standards. In addition, it allows the Ministry to detect if a project is under- or over-designed relative to its intended function.

We reviewed 49 files for projects claimed under the basic construction allocation and 19 files for supplementary projects from four districts for the period from 1991 to 1993. We found varying practices among the municipalities with respect to the submission of documents. Some municipalities submitted all of the required documents while others submitted only design criteria or tender documents. No documents were submitted for ten of the basic construction projects and two of the supplementary projects. Of those, just one project was denied a subsidy. In fact, that project was the only one among the 68 we reviewed to be denied Ministry funding.

Ministry officials indicated that they encourage municipalities to submit all required documents. However, a project will not be refused for subsidy if the required documents are not provided as long as the project expenditures are for eligible items.

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## SITE INSPECTIONS

Ministry staff indicated that site visits are an essential part of the program's administration to ensure that municipalities are properly managing construction projects, to help in the planning of Ministry expenditures and to provide technical advice, particularly to smaller municipalities. Currently, there are no formal policies or guidelines as to the frequency of inspections of projects.

A review of files for the above-mentioned 68 projects showed that only five project files contained evidence of site inspections. Ministry staff indicated that such inspections were being performed, but that there were no requirements for formally documenting them. Therefore, we could not conclude whether the Ministry ensured that construction projects complied with provincial standards.

Discussions with Ministry staff also indicated that due to the large number of construction projects undertaken during any given period, not all sites can be visited. Therefore staff choose which projects to visit on a case by case basis, usually based on the project's size relative to the municipality's resources and expertise. Another option may be to request certification from municipal engineering staff stating that projects have complied with provincial standards.

The Ministry has had in place for many years a *Project Review Report* to be used for site inspections so that they can be performed uniformly across the province. However, in our review we found only one case where it was used.

## RECOMMENDATIONS:

**The Ministry should ensure that all municipalities submitting requests for construction subsidies comply with the requirements for documentation.**

**The Ministry should develop guidelines for the frequency of site inspections and should ensure that inspections are properly documented. Where close monitoring is considered impractical or unnecessary, certification from municipal engineering staff should be obtained stating that projects have complied with provincial standards.**

## MINISTRY RESPONSE:

***Municipalities will be informed of the importance of complying with Ministry policy in regards to the submission of construction documentation.***

***As many municipal contracts are going on during the construction season, it is important for the Ministry's staff to monitor municipalities to ensure that they have the staff, resources and processes in place so that construction is managed according to good construction practices and Ministry requirements. The Ministry will prepare site inspection guidelines for use by district staff.***

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*As all regular road projects are funded by both the municipality and the Ministry, it is in the municipality's best interest to ensure that controls exist. The Ministry values the importance of consistency in monitoring and documentation. Policy requires site visits to ensure that proper controls are in place on municipal projects.*

*Ministry staff and municipal staff work closely together to ensure that the province and the municipalities get value for money spent. The Ministry's advice and expertise is well received by the municipalities.*

*The "Annual Return" document submitted by all municipalities includes a signed statement that the municipality has complied with the requirements of the Public Transportation and Highway Improvement Act. This declaration of compliance will be modified to add the statement that "all Ministry requirements" have been met by the municipality.*

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## CHAPTER FOUR

# Public Accounts of the Province

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## INTRODUCTION

The *Public Accounts* for each fiscal year ending March 31 are prepared under the direction of the Minister of Finance as required by the *Ministry of Treasury and Economics Act*. For the fiscal year ending March 31, 1994, the *Public Accounts* comprise the Financial Statements of the Province and three supplementary volumes.

The *Ministry of Treasury and Economics Act* requires that the *Public Accounts* be delivered to the Lieutenant-Governor in Council for presentation to the Assembly not later than the tenth day of the first session held in the following calendar year. However, the *Standing Orders of the Legislative Assembly* call for the tabling of all statutory reports within six months of the close of the reporting period unless reasons for the delay are given to the House. Accordingly, the *Public Accounts* have normally been available for tabling by September 30 of each year. Due to the significance of the changes made to the Financial Statements this year, this tabling was delayed until October 20, 1994.

The Financial Statements of the Province are the responsibility of the Ministry of Finance. This responsibility encompasses ensuring the integrity and fairness of the information presented in the statements, including the many amounts which must of necessity be based on estimates and judgment. That Ministry is also responsible for ensuring that an established system of control and supporting procedures is maintained to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Provincial Auditor audits and expresses an opinion on the Financial Statements of the Province. This opinion is intended to provide reasonable assurance that the Financial Statements are free of material misstatement. These Financial Statements, along with the Provincial Auditor's opinion on them, are provided in a separate volume of the *Public Accounts*.

*Volume 1* of the *Public Accounts* provides details of the significant transactions of the Province's Consolidated Revenue Fund. It includes schedules of the Fund's revenues, expenditures, financing transactions, financial assets, liabilities and contingent liabilities. It also contains the individual statements for each ministry.

*Volume 2* contains reproductions of the audited Financial Statements of the most significant, in terms of size, of the agencies of the Crown and of Crown controlled corporations. For consolidation purposes these entities are classified as government service organiza-

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tions, government enterprises, or trusts under administration. Volume 2 also contains a number of miscellaneous unaudited statements.

Volume 3 details each ministry's expenditures, such as salaries and wages, employee benefits, travelling expenses and other payments, under two main categories: Voted Appropriations and Statutory Appropriations.

The Provincial Auditor reviews the information in Volume 1 and Volume 3 for consistency with information presented in the Financial Statements.

## IMPLEMENTING IMPROVED ACCOUNTING PRINCIPLES IN THE PROVINCE'S FINANCIAL STATEMENTS

It is with great pleasure that I am able to report that my audit opinion on the Province's Financial Statements in the *Public Accounts* for the year ended March 31, 1994 is clear of qualifications or reservations. The *Audit Act* prescribes that I shall report if the accounting principles have been applied on a basis consistent with that of the preceding year together with any reservations I may have. I have met this reporting requirement by adding the following paragraphs after the audit opinion in my Auditor's Report on the Financial Statements of the Province:

*These Financial Statements have been prepared, as urged by me last year, on an accounting and reporting basis which is in accordance with standards for good practice in accounting and financial reporting by Canadian governments. As a result, in these statements for the year ended March 31, 1994:*

- *expenditures and revenues are reflected in the determination of the deficit when they were incurred or earned, respectively, whether or not such transactions have been settled by the receipt or payment of cash or its equivalent;*
- *organizations owned or controlled by the government are included on an appropriate basis, in order to provide an accounting for the full nature and extent of the financial affairs and resources for which the government is responsible; and*
- *the accumulated deficit is adjusted for the new accounting and reporting basis as at April 1, 1993.*

With these improvements made, I would like to express my appreciation to the staff members of the Ministry of Finance and of my Office for the hard work that went into bringing them about.

In this regard, two major challenges remain for the Ministry of Finance:

- implementing the improved accounting principles and reporting basis for the *Budget* itself; and
- finding a way to reflect within the *Public Accounts* the valuable contribution that capital assets acquired, developed or constructed by the government make to the Province. We look forward to consultation on this matter to assist in ensuring that existence, ownership, auditability and valuation issues regarding these assets are resolved, that

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value for money is obtained, and that business practices, systems and procedures are in place to properly manage and control these assets.

## **1993/94 FINANCIAL STATEMENTS**

The Financial Statements of the Province for the year ended March 31, 1994 include the Consolidated Revenue Fund and, on an appropriate basis, entities owned or controlled by the government. They also incorporate accrual accounting. These statements therefore are Summary Financial Statements as recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants (CICA).

In prior years, the audited Financial Statements and the accompanying notes were contained in Volume 1 of the *Public Accounts*. These statements summarized the financial activities of the Province's Consolidated Revenue Fund for the fiscal year, as well as its financial position at the close of the year.

The Consolidated Revenue Fund Financial Statements were designed to provide an accounting of the financial resources appropriated by the Legislature. Accordingly, they were prepared using a cash basis of accounting, modified in the case of cash outflows to allow an additional 30 days to pay for goods and services received during the fiscal year just ended. Under the Consolidated Revenue Fund concept, the activities of Crown agencies were reported only to the extent to which their operations had been financed from, or contributed to, the Consolidated Revenue Fund.

For the fiscal year ended March 31, 1993, we urged the government to produce, on a modified accrual basis, summary Financial Statements that would more fully report on the nature and extent of its financial affairs and operations. To accomplish this, we recommended that the government in future base its Financial Statements on the recommendations of PSAAB.

The Province's Financial Statements for the year ended March 31, 1994 have been prepared in accordance with PSAAB recommendations. As the Province's *Budget, Estimates* and appropriation control system are still on a modified cash basis, Volumes 1 and 3 of the *Public Accounts* for the year ended March 31, 1994 report on this basis. We continue to advocate that in future the improved accounting principles also be used for the financial information set out in these volumes.

Additionally, although our audit was not designed to identify all weaknesses in internal controls, nor to provide assurances on financial systems and procedures as such, we did note a number of areas during the audit where we believe improvements could be made. These areas, along with our accompanying recommendations for improvement, have been brought to the attention of the Ministry of Finance.

## **PSAAB RECOMMENDATIONS**

PSAAB was established in 1981 by the Board of Governors of the CICA. As part of its mandate, PSAAB issues Statements containing recommendations intended to improve and harmonize financial reporting, accounting and auditing in the public sector in Canada.

The recommendations contained in the Statements represent the consensus of senior government financial officials, legislative auditors and other experts in public sector accounting across Canada on minimum financial statement accounting and reporting practices for

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governments. At present, PSAAB has indicated that the federal and most provincial governments either substantially comply or plan to comply with their recommendations.

In essence, the PSAAB recommendations call for governments to produce summary financial statements using accounting principles and practices that more closely resemble those used by private sector firms.

The two areas where the government's Financial Statements were changed most significantly to comply with PSAAB's recommendations relate to the basis of accounting used and the definition of the reporting entity. The statements now reflect a modified accrual basis of accounting as opposed to a modified cash basis of accounting. They also reflect the inclusion in the government reporting entity of organizations owned or controlled by the government, as opposed to the past practice of reflecting only the activities of the government's Consolidated Revenue Fund.

Under modified accrual accounting, revenues and expenditures are now recorded in the period in which they have been earned or incurred, respectively, whether or not the related transactions have been settled by the receipt or payment of cash or its equivalent. Thus, these transactions are now reflected in the determination of the deficit or surplus for the period. Examples of items that are now reflected in the Financial Statements are accounts and taxes receivable, allowances for doubtful accounts, accounts payable, accrued liabilities and transfer payments owing, vested termination benefits and the unfunded portion of pension benefits earned by employees for which the government is responsible.

To properly reflect owned or controlled entities, significant government agencies were classified as either organizations, enterprises, or trusts, and their operations were included in the summary Financial Statements by adoption of line by line consolidation in the case of government organizations, recognition of the Province's investment on a modified equity basis for enterprises, and by note disclosure of significant trusts. The remaining agencies continue to be reflected in the Financial Statements to the extent to which their operations have been financed from, or have contributed to, the Consolidated Revenue Fund.

Because of their unique nature and size, special mention is warranted of the treatment in the summary Financial Statements of two of the largest agencies of the Province: Ontario Hydro and the Workers' Compensation Board. By virtue of the *Power Corporation Act*, Ontario Hydro's earnings and net assets (equity) are neither intended nor available for distribution to the Province. Similarly, under the *Workers' Compensation Act*, the Board's liabilities, including its large unfunded liability, are ultimately the responsibility of the private sector employers of the province. Accordingly these agencies' operations have not been included in the Province's Financial Statements.

The following chart summarizes some of PSAAB's most significant recommendations, as well as our other 1993 recommendation related to the *Public Accounts*. For each we have indicated whether the Province was and is now following it for all material items:

	March 31 1993	March 31 1994
<b>PSAAB Recommendations for Financial Statements</b>		
Comparison of actual results to those forecast in fiscal plan	Yes	Yes*
Issued on a timely basis	Yes	Yes
Description of all significant accounting policies	Yes	Yes
Adopts government reporting entity model	No	Yes
Consolidation of government organizations	No	Yes**
Modified equity treatment for government enterprises	No	Yes**
Material contingencies disclosed	Yes	Yes
Transactions reflect substance over form	No	Yes
Pension liabilities and expenses on accrual basis	No	Yes
Revenues, expenses, receivables, payables, transfer payments all on accrual basis	No	Yes
Loans repayable from future appropriations treated as expenditures	Yes	Yes
<b>Other</b>		
The Budget is prepared using the same accounting rules as for the financial statements	Yes	No

\* *In total only.*

\*\* *For significant entities.*

## AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Under the *Audit Act*, the Provincial Auditor is required to examine the accounts and records of the Province, and to report annually to the Legislative Assembly on the Province's Financial Statements. The report is to state whether, in the opinion of the Provincial Auditor, the statements present fairly the financial position, results of operations and changes in the Province's financial position, and are in accordance with the stated accounting policies, consistently applied. Where there are qualifications of the audit opinion, the reservations are to be explained in the report.

For the year ended March 31, 1994, this opinion, which was expressed without reservation, is reproduced as follows:

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To the Legislative Assembly of the Province of Ontario

I have audited the statement of financial position of the Province of Ontario as at March 31, 1994 and the statements of operations and accumulated deficit and changes in financial position for the year then ended. These Financial Statements are the responsibility of the government. My responsibility is to express an opinion on these Financial Statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting policies used and significant estimates made by the government, as well as evaluating the overall Financial Statement presentation.

In my opinion, these Financial Statements present fairly, in all material respects, the financial position of the Province as at March 31, 1994 and the results of its operations and the changes in its financial position for the year then ended in accordance with the stated accounting policies as set out in the summary of significant accounting policies which forms an integral part of these Financial Statements.

These Financial Statements have been prepared, as urged by me last year, on an accounting and reporting basis which is in accordance with standards for good practice in accounting and financial reporting by Canadian governments. As a result, in these statements for the year ended March 31, 1994:

- expenditures and revenues are reflected in the determination of the deficit when they were incurred or earned, respectively, whether or not such transactions have been settled by the receipt or payment of cash or its equivalent;
- organizations owned or controlled by the government are included on an appropriate basis, in order to provide an accounting for the full nature and extent of the financial affairs and resources for which the government is responsible; and
- the accumulated deficit is adjusted for the new accounting and reporting basis as at April 1, 1993.



Toronto, Ontario  
September 21, 1994

Erik Peters, FCA  
Provincial Auditor

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# REPORTING THE CONSOLIDATED REVENUE FUND DEFICIT

## INTRODUCTION

As already described, our audit for the year ended March 31, 1994 covered the Province's Financial Statements, which were prepared in accordance with the recommendations of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants. These Financial Statements were prepared using the modified accrual basis of accounting, and, in addition to the Consolidated Revenue Fund, included the operations of significant government agencies and enterprises.

## CONSOLIDATED REVENUE FUND FINANCIAL RESULTS

The Financial Statements of the Province for the year ended March 31, 1994 include the Consolidated Revenue Fund (CRF) and, on an appropriate basis, entities owned or controlled by the government. However, unaudited "actual" results for the CRF only for the year ended March 31, 1994 were released and publicized both as part of the Province's 1994 *Budget*, tabled on May 5, 1994, and also as part of the quarterly *Ontario Finances* brochure as at June 30, 1994. These results were based upon the modified cash basis of accounting, consistent with the basis used in preparing the 1993/94 *Budget*.

Page 87 of the 1994 *Budget* reported the interim (preliminary) 1993/94 deficit as being \$9.430 billion. Reference was made to the fact that this amount excluded \$854 million in "alternative capital financing." This amount consisted primarily of capital grants to entities such as school boards and universities which were treated as loans rather than expenditure.

The *Ontario Finances* brochure, published on August 2, 1994, reported the final unaudited 1993/94 "actual" deficit as being \$9.278 billion, after reflecting revenue and expenditure adjustments of \$152 million made after preparation of the preliminary deficit figure. However, the reference to "alternative capital financing" was dropped. This same amount was also shown and described as the "modified cash deficit" as part of the new Financial Statements appearing in the 1993/94 *Public Accounts*, which were tabled on October 20, 1994.

In our view, however, under the modified cash basis of accounting used in the preparation of these results, the reported unaudited CRF deficit as reported in the documents mentioned above was understated by about \$1.6 billion. The components of this \$1.6 billion are summarized on the following table, and then are described in detail for purposes of clarification.

Although these items were referred to in the body of the 1994 *Budget*, their improper treatment led to incorrect determination of the interim and final unaudited CRF deficit.

	(\$ billions)
Unaudited CRF deficit, modified cash basis, as reported	9.278
Add: Items that should have been included in determining the reported deficit	
1) Capital grants to universities, school boards, hospitals, municipalities, transit authorities and capital investment corporations incorrectly treated as loans receivable	.932
2) Sale of office buildings to Ontario Realty Corporation, a wholly-owned Crown agency, incorrectly treated as revenue (net)	.229
3) Funds received from Toronto Area Transit Operating Authority (GO Transit) for sale and repurchase of rolling stock, incorrectly treated as revenue	.424
Impact on CRF deficit of items not reported correctly	1.585
Unaudited CRF deficit, modified cash basis, that should have been reported	10.863

## NATURE OF ADJUSTMENTS

### 1) CAPITAL GRANTS TREATED AS LOANS (\$932 MILLION)

In accordance with the 1993/94 *Budget*, the government, through the CRF and using the newly-created capital investment corporations as intermediaries, provided "loans" of \$751 million to a number of entities for major capital projects which in the past, would have been treated as an expense by the CRF. Through the Ontario Financing Authority, \$546 million was so provided to universities, colleges, school boards and hospitals. Through the Ontario Financing Authority and the Ontario Transportation Capital Corporation, an additional \$140 million was provided to provincial transit authorities. Finally, through the Ontario Financing Authority and the Ontario Clean Water Agency, \$65 million was provided to municipalities.

Agreements have been entered into with all these entities whereby the Province will be providing them annually with the "funds" required to repay these "loans." Therefore, in essence, the repayment of these loans is being financed through future annual appropriations from the CRF.

As covered in Chapter Four of last year's *Annual Report*, the Public Sector Accounting and Auditing Board (PSAAB) recommends that "when a direct relationship can be established between the repayment of a loan and a government's funding to the borrower, the portion of the loan that is expected to be recovered from future appropriations should be accounted for as an expenditure." In the case of these loans, the entire \$751 million should have been treated as expenditure, rather than as loans receivable. The PSAAB recommendation, with which we concur, is intended to ensure that substance prevails over form.

There are those who would argue that this is a method of amortizing expenditures made for capital purposes over the useful life of the assets, similar to what is done in the private sector. However, the \$751 million represents, in effect, grants made to entities to acquire capital assets, which do not generate new revenues for the government and whose service values accrue to the grant recipients, without financial value accruing to the government.

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Similar to the foregoing, the CRF, through the Ontario Financing Authority, advanced \$181 million to the Ontario Realty Corporation and the Ontario Transportation Capital Corporation to finance the costs of both government buildings and highways under construction as well as highway improvements. However, funds required to repay these loans will be obtained through future grants from the CRF or the dedication of revenue which otherwise would have flown into the CRF. Therefore, since the Province has essentially assumed the obligation, the \$181 million should have been treated as an expenditure.

## **2) SALE OF OFFICE BUILDINGS TO ONTARIO REALTY CORPORATION (\$229 MILLION)**

At the end of the 1993/94 fiscal year, the Province transferred a number of office buildings such as the Hepburn Block, the Frost Building, etc., to the Ontario Realty Corporation (a wholly-owned Crown agency) for a consideration of \$252 million, which was taken into revenue by the Province. This related party transaction created no new inflow of cash, but simply offsetting loans receivable and payable in the records of the Province and the Ontario Realty Corporation.

In Chapter Four of last year's *Annual Report*, we urged the concept of substance over form, as recommended by PSAAB, be considered when accounting for such transactions. Substance over form requires that transactions be accounted for and presented in accordance with their financial reality. Since the Ontario Realty Corporation is a wholly-owned Crown agency, no new revenue is, in reality, being earned by the Province, and the office buildings are still being held within the government as a whole.

To the extent that these office buildings are not re-sold or leased to third parties, in substance there is no sales revenue, but only an internal paper transfer of beneficial ownership.

Regarding a similar transaction in the 1992/93 fiscal year involving surplus real estate, \$23 million of that surplus real estate has now been re-sold by the Ontario Realty Corporation to third parties. Therefore, the net understatement of the 1993/94 deficit is reduced by this actual sales revenue to \$229 million.

## **3) SALE AND REPURCHASE OF ROLLING STOCK ( \$424 MILLION)**

At the request of the Minister of Finance, the Toronto Area Transit Operating Authority (GO Transit) entered into a financing transaction on March 31, 1994 whereby substantially all its locomotives and bi-level cars were sold and immediately repurchased from the same offshore investor at the same price (\$431.5 million) under a conditional sales contract maturing on July 1, 2006. The resulting \$431.5 million debt was collateralized by the locomotives and bi-level cars.

The sales proceeds, net of transaction costs, were then remitted to the Province's CRF, and were treated as revenue. We firmly believe the proceeds from this indirect borrowing should have been recorded and reported as debt, and not as revenue.

In support of our view, as part of a December 1993 memorandum of understanding between the Province and GO Transit, the Province agreed to provide funds to GO Transit in a timely manner and in the amounts necessary to satisfy the debt obligation and interest when payments fall due. Thus, again using the "substance over form" principle, the Province has accepted the ultimate responsibility for repayment of this debt and has not earned revenue.

We were pleased to find that all of the foregoing transactions were correctly treated in the new Financial Statements of the Province for the year ended March 31, 1994.

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## **FUTURE CONSIDERATIONS**

### **FOR 1994/95**

We note that according to the 1994 *Budget*, transactions similar to those discussed previously, and exceeding \$2 billion, are planned for the 1994/95 fiscal year. We therefore urge that the government prepare a reconciliation with next year's unaudited actual deficit similar to that previously shown to make readers aware of the more realistic unaudited actual CRF deficit.

### **SUBSEQUENT TO 1994/95**

The preceding, in my opinion, unnecessarily confusing situation could be avoided if, commencing with the 1995/96 fiscal year, accounting bases used in the preparation of budgets were consistent with those now used in the preparation of the Province's Financial Statements. This would be a major step towards clearly reporting to the Legislature, and therefore to the taxpayers, the *Budget* and actual financial performance information on a truly comparable basis.

I therefore continue to strongly advocate that the government adopt the same accounting policies for reporting budgeted and actual results and that the principle of substance over form be clearly applied. The difficult financial and program decisions which the Legislative Assembly has to make to cope with debt and deficit would then be based on a clearer picture of the financial performance and financial condition of the Province.

Additionally, as detailed in Chapter Two, I recommend that the controllership function be strengthened, and given an appropriate, preferably legislated, framework within which to operate.

## **RELATING THE "ADJUSTED" CRF DEFICIT TO THE FINANCIAL STATEMENT DEFICIT**

In the foregoing section, we indicated that, in our view, the unaudited CRF deficit as reported under the modified cash basis of accounting should have been reported by the government as \$10.863 billion rather than as \$9.278 billion. The difference resulted from the incorrect treatment of certain capital grants and non-arms-length revenue transactions.

This adjusted CRF deficit of \$10.863 billion is remarkably close to the deficit of \$10.848 billion reported in the audited Financial Statements which was determined under the new accrual/consolidation basis of accounting. This raises the question—is this a coincidence or will this always be the case if the modified cash basis deficit is properly calculated?

As detailed below, the accounting adjustments netted out to \$15 million this year. This will not necessarily be the case in future years as the state of the economy has a major impact on revenue accruals and a number of factors can affect the required expenditure accruals. It is also evident from the reconciliation that the net effect of consolidating government agencies and corporations was relatively small because most of the profits of the larger government entities, such as the Ontario Lottery Corporation and the Liquor Control Board of Ontario, were already included in the CRF.

	(\$ billions)
Unaudited CRF deficit, modified cash basis, that should have been reported	10.863
Accounting Adjustments:	
Revenue Accruals	(.622)
Expenditure Accruals	.742
	.120
Consolidation Adjustments	
- Revenue	.296
- Expenditure	(.431)
	(.135)
	(.015)
Audited deficit, modified accrual and consolidation basis	10.848

While the foregoing deals only with the current year's deficit, an accounting adjustment of \$7.601 billion was also made to the reported opening accumulated deficit at April 1, 1993.

As events showed, 1993/94 was a very good year in which to adopt the new accounting rules because their real net impact on that year's deficit was to reduce it by \$15 million. However, in the overall picture, the size or direction of the net impact of implementing the PSAAB recommendations is not as relevant as the future benefit of sounder financial information for the decision makers. The benefit to the decision makers in the Legislature, and therefore to the taxpayers, is that they will in future be able to make their decisions based on more financially realistic information. There is much work still ahead, especially in the planning area (see "Future Considerations", above) but a significant and very positive step in the right direction has been taken this year by the Ministry of Finance.

## THE CONSOLIDATED REVENUE FUND — AUTHORIZED AND ACTUAL PAYMENTS

### AUTHORIZED PAYMENTS

All public monies received and expenditures made are channelled through the Consolidated Revenue Fund. Expenditures from the Fund are of two major types: those specified by the *Estimates* (including *Supplementary Estimates*) and approved by the Legislative Assembly and those specified under the provisions of various statutes. The former are termed payments from Voted Appropriations and the latter are termed payments from Statutory Appropriations. Payments from a particular Voted Appropriation may be increased by a Treasury Board Order. Special Warrants are another type of payment from the Consolidated Revenue Fund which may be authorized under certain conditions by Orders-in-Council. The nature of these four expenditure approval mechanisms is more fully explained below.

## VOTED APPROPRIATIONS

Prior to the passage of the *Supply Act*, the Legislature authorizes payments out of the Consolidated Revenue Fund by means of motions of interim supply. For the 1993/94 fiscal year, the time periods covered by the motions of interim supply and the dates the motions were agreed to by the Legislature were as follows:

- July 1, 1993 to October 31, 1993 - passed June 24, 1993
- November 1, 1993 to December 31, 1993 - passed October 28, 1993

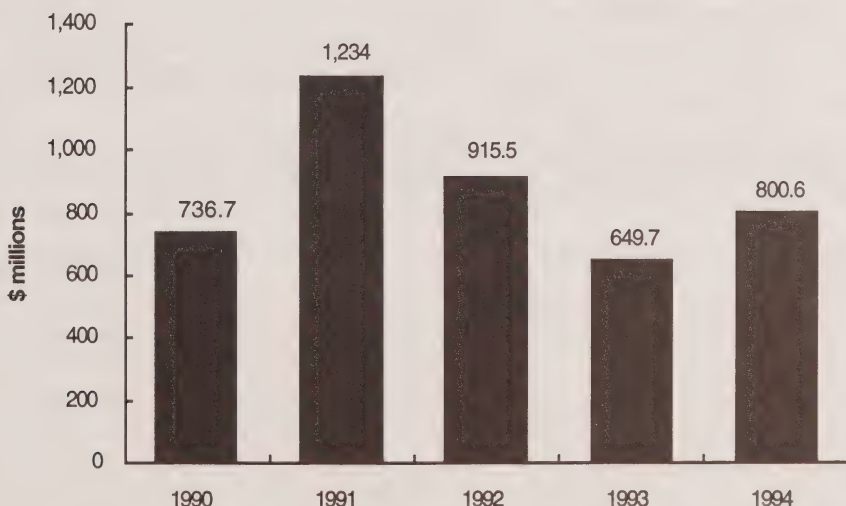
Payments for the period April 1, 1993 to June 30, 1993 were authorized by Special Warrants. The nature of this authority is more fully explained under the Special Warrants heading on the next page.

When the Legislature approves the *Supply Act*, the annual estimated expenditures (*Estimates and Supplementary Estimates*) are formalized as Voted Appropriations. The *Supply Act*, 1993, pertaining to the fiscal year ended March 31, 1994, received Royal Assent on December 14, 1993.

## TREASURY BOARD ORDERS

Section 8 of the *Treasury Board Act* allows the Treasury Board to make an order authorizing payments to supplement the amount of any Voted Appropriation which is insufficient to carry out the purpose for which it was made, provided the amount of the increase is offset by a corresponding reduction of expenditures from other Voted Appropriations. The order may be made at any time before the first day of May following the end of the fiscal year in which the supplemented appropriation was made.

The following chart is a summary of Treasury Board Orders issued for the past five years:



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Treasury Board Orders for the 1993/94 fiscal year summarized by month of issue are as follows:

Month of Issue	Number	Authorized \$
October 1993 - February 1994	9	122,626,600
March 1994	19	570,839,400
April 1994	<u>11</u>	<u>107,108,600</u>
	<u>39</u>	<u>800,574,600</u>

In accordance with a Standing Order of the Legislative Assembly, the preceding Board Orders have been listed in *The Ontario Gazette*, together with explanatory information. A detailed listing of Treasury Board Orders, showing the amounts authorized and expended, is included as Exhibit Five of this Report, as required by the *Audit Act*.

### SPECIAL WARRANTS

As previously indicated, motions of interim supply adopted by the Legislature are the usual means of authorizing payments from the Consolidated Revenue Fund prior to the passage of the *Supply Act*. However, when the Legislature is not in session, section 7 of the *Treasury Board Act* provides for the issue of a Special Warrant authorizing the expenditure of money for which there is no appropriation by the Legislature. The authorized amount is to be paid out of the Consolidated Revenue Fund as specified in the Special Warrant. Special Warrants are authorized by Orders in Council approved by the Lieutenant-Governor on the recommendation of the Government.

Two Special Warrants for the period from April 1, 1993 to June 30, 1993 were approved by an Order in Council dated March 10, 1993. These Special Warrants authorized payments of \$13,643,443,900 for the general and necessary expenditures of the Government and \$45,600,000 for the Offices of the Chief Election Officer, the Ombudsman, the Provincial Auditor and the Legislative Assembly.

The amounts of the Special Warrants were based on anticipated cash requirements, on the premise that expenditure would continue up to the authorized limit, and then under the authority of motions of interim supply.

The total approved by the *Supply Act*, 1993 excluded the amount authorized by these two Special Warrants.

In accordance with a Standing Order of the Legislature, summaries of the Special Warrants were tabled on the first Sessional day following the issue of the Warrants.

## STATUTORY APPROPRIATIONS

Payments out of the Consolidated Revenue Fund relating to Statutory Appropriations represent those where the specific authority to spend is expressly contained in a statute of the Legislature. No further specific approval is required as the spending authority continues indefinitely until the statute is amended or repealed.

For the information of the Legislature, the Government notes in the annual *Estimates* the amount expected to be spent in accordance with the authority given in the various statutes. However, if spending on Statutory Appropriations exceeds the expected amount, no Treasury Board Order is required.

## COMPARISON OF AUTHORIZED AND ACTUAL PAYMENTS

The comparison for the fiscal year ended March 31, 1994 is as follows:

Appropriations	Authorized (\$ millions)	Actual (\$ millions)
Voted per Legislative Assembly Estimates	34,681	31,542
Approved by Treasury Board Treasury Board Orders	800	721
Statutory Appropriations	8,298	11,204
Special Warrants	<u>13,689</u>	<u>13,689</u>
	<u>57,468</u>	<u>57,156</u>

## COLLECTABLE ACCOUNTS

Under section 5 of the *Financial Administration Act*, the Lieutenant Governor in Council, on the recommendation of the Minister of Finance, may delete from the accounts any amount due to the Crown deemed uncollectable. The losses deleted from the accounts during any fiscal year are to be reported in the *Public Accounts*.

### 1993/94 WRITE-OFFS

A total of \$101.4 million was written off in the 1993/94 fiscal year (in 1992/93 the amount was \$129.8 million), as indicated on page 315 of Volume 2 of the *Public Accounts*. The major portion of these write-offs related to the following:

- \$44.3 million for unpaid taxes relating to the *Retail Sales Tax Act*, the *Corporations Tax Act* and the *Gasoline Tax Act*;
- \$29.0 million for uncollectable loans made by the Development Corporations to their clients or to the clients of ministries while acting as their agent;
- \$5.4 million in uncollectable claims and judgments pertaining to the Motor Vehicle Accident Claims Fund;

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- \$5.4 million for uncollectable loans to students under student support programs; and
  - \$5.3 million pertaining to overpayments under the *Family Benefits Act* and the *General Welfare Act*.

## **TRANSFERS AUTHORIZED BY THE BOARD OF INTERNAL ECONOMY**

When the Board of Internal Economy authorizes the transfer of monies from one item of the *Estimates* of the Office of the Assembly to another item within the same Vote, section 91 of the *Legislative Assembly Act* requires the Provincial Auditor to make special mention of the transfer(s) in the *Annual Report*.

In respect of the 1993/94 expenditure estimates, no such transfers were made relating to the Office of the Assembly.

# The Office of the Provincial Auditor

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## MISSION STATEMENT

Our mission is to report to the Legislative Assembly objective information and recommendations resulting from our independent audit activities of the government's programs, its Crown agencies and corporations. In doing so, the Office assists the Legislature in holding the government and its administrators accountable for the quality of the administration's stewardship of public funds and for the achievement of value for money in government operations.

We audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund, the financial statements of the Province and the accounts of agencies of the Crown. Our responsibilities are set out in the *Audit Act* (Exhibit 6 in this Report).

The Office thus fulfils its mission by conducting value for money, attest and compliance audits and by presenting this *Annual Report* to the Legislative Assembly. We also assist and advise the Standing Committee on Public Accounts in its review of the *Public Accounts* of the Province and the *Annual Report* of the Provincial Auditor.

## INDEPENDENCE

The Provincial Auditor is appointed as an officer of the Legislative Assembly by the Lieutenant Governor in Council on the address of the Assembly. This is done after consultation with the Chair of the Standing Committee on Public Accounts on the recommendation of the Committee. The Provincial Auditor and staff of the Office are independent of the government and its administration. We have access to all relevant information and records necessary to the performance of our duties under the *Audit Act*. Our independence is a safeguard which enables the Office to fulfil its auditing and reporting responsibilities objectively and fairly. The Provincial Auditor is accountable to the public through the Legislative Assembly.

The Board of Internal Economy, an all-party legislative committee independent of the government's administrative process, approves our budget and staffing. As required by the *Audit Act*, the Office's expenditures relating to the 1993/94 fiscal year have been audited by a firm of chartered accountants appointed by the Board and are presented at the end of this chapter. The audited statement of expenditure is submitted annually to the Board of Internal Economy and tabled in the Assembly in the fall session.

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## AUDIT RESPONSIBILITIES

### PRIMARY RESPONSIBILITY

The primary responsibility of the Office is to audit the administration of government programs and activities, as carried out by ministries and agencies of the Crown under government policies.

Our audit responsibilities do not extend to government policy matters. The Office audits neither government policies nor information contained in Cabinet documents used in policy deliberations or decisions. The government is held accountable for policy matters by the Legislature, which continually monitors and challenges government policies and programs through questions in the Legislature and reviews of legislation and expenditure estimates.

### Accounts of the Province and Ministries

The Provincial Auditor, per subsection 9(1) of the *Audit Act*, is required to audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise. To this end, the Office carries out an annual attest audit to enable the Provincial Auditor to express an opinion on the Province's summary financial statements and carries out cyclical value for money audits. Exhibit 1 in this Report lists the value for money audits conducted in 1993/94.

### Agencies of the Crown and Crown Controlled Corporations

The Provincial Auditor, per subsection 9(2) of the *Audit Act*, is required to audit those agencies of the Crown that are not audited by another auditor. Exhibit 2, part (i), lists the agencies audited for the 1993/94 fiscal year. Public accounting firms are currently contracted by our Office to audit the financial statements of several of these agencies on our behalf.

Exhibit 2, part (ii), and Exhibit 3 list the agencies of the Crown and Crown controlled corporations audited by public accounting firms for the 1993/94 fiscal year. Subsection 9(2) of the *Audit Act* requires public accounting firms who are appointed auditors of agencies of the Crown to audit under the direction of, and report to, the Provincial Auditor. Under subsection 9(3) of the Act, public accounting firms auditing Crown controlled corporations are required to deliver a copy of the audited financial statements to the Provincial Auditor, as well as a copy of their findings and recommendations to management (management letter).

### ADDITIONAL AUDIT RESPONSIBILITIES

Under section 16 of the *Audit Act*, the Provincial Auditor may, by resolution of the Standing Committee on Public Accounts, be required to examine and report on any matter respecting the Public Accounts.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by either the Assembly, the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister of the Crown. However, these special assignments are not to take precedence over the Auditor's other duties. The Provincial Auditor can

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decline an assignment referred by a minister if, in the opinion of the Auditor, it conflicts with other duties.

The “Special Assignments” section of this chapter indicates the status of recent assignments requested under these sections of the Act.

## AUDIT ACTIVITIES

### TYPES OF AUDITS

Value for money, compliance and attest audits are the three main types of audits carried out by the Office. All such audits are performed in accordance with generally accepted auditing standards. In addition, inspection audits of selected transfer payment recipients are conducted under section 13 of the *Audit Act*. A brief description of each of these audit categories follows.

#### Value for Money

Subsection 12(2) of the *Audit Act* requires the Office to report on any cases observed where money was spent without due regard to economy or efficiency, or where appropriate procedures were not taken to measure and report on the effectiveness of programs. This value for money mandate is exercised with respect to various ministry and Crown agency programs and activities. The Office does not have a mandate under the *Audit Act* to conduct value for money audits of transfer payment recipients, but may assess the steps taken by a ministry/agency to satisfy itself that funds provided to organizations are well managed.

It is not part of the Office’s mandate to evaluate the effectiveness of programs or develop standards to measure the efficiency of program delivery, as these functions are the responsibility of the ministry/agency management. The Office is only responsible for assessing the extent to which these functions have been carried out by management.

#### Compliance

Compliance audits are carried out in ministries and Crown agencies in order to assess whether transactions and other aspects of operations are in compliance with legislative and administrative requirements. The Office generally conducts such audit work in conjunction with our value for money and attest auditing.

#### Attest

Attest (financial) audits are designed to attest to, or express a professional opinion on, a set of financial statements. The opinion states whether the operations and financial position of the entity have been fairly presented in compliance with appropriate accounting policies. The Office conducts attest audits on the summary financial statements of the Province and various Crown agencies on an annual basis.

#### Inspection Audits of Transfer Payment Recipients

Transfer payments to organizations such as hospitals, universities, school boards, municipalities and thousands of smaller organizations comprise over 55% of government expenditures. Additional transfer payments are made to individuals under a variety of pro-

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grams, such as OHIP or family benefit allowances. Such individuals are not and should not be subject to direct audit by the Provincial Auditor.

An inspection audit is defined in the *Audit Act* as an examination of accounting records. Although value for money observations may arise as a by-product of such audits, the audits are not value for money oriented, because only accounting records can be examined in inspection audits.

The Office may, where circumstances warrant the extension of a ministry or agency audit, conduct inspection audits of transfer payment recipients. In recent years, the Office has carried out inspection audit activity of major recipients of transfer payments, specifically community colleges, universities, hospitals and school boards. However, the Office has temporarily suspended major inspection audit activity pending the government's consideration of a proposal to amend the *Audit Act* to permit the Office to access all records and information necessary to perform full scope audits, including value for money, of transfer payment recipients. Further details and background on the subject of amendments to the *Audit Act* are provided in Chapter 6 - in the section entitled "Status of Committee Recommendation Respecting Amendments to the *Audit Act*".

## **SCHEDULING OF AUDIT ACTIVITIES**

### **Ministry Audits**

All major ministry programs are considered for audit over a five-year cycle. These cyclical audits are primarily value for money oriented and include major information systems related to the program. They deal specifically with the administration of programs and activities by management.

Various factors are considered in rating the priority of an audit. The factors considered are: total expenditures, last time audited and results of previous cyclical audits, and work completed or planned by internal audit. Risk assessments are also carried out to determine whether a program should be audited. In assessing the various risk factors, including the impact of a program on the public, we attempt to determine the possible matters of significance which may result from auditing a program. The following are major factors considered in planning each audit:

- mandate under the *Audit Act*;
- clarity of management's objectives and goals;
- availability of information or evidence required;
- availability of appropriate audit methodology for the subject/issue;
- estimated costs, benefit and duration of an audit; and
- complexity/diversity of operations.

The amount of work done by ministry and agency internal auditors and the breadth of its scope can have a major impact on the timing, frequency and extent of our audit activity. By having access to internal audit work plans, working papers and reports, the Office is able to avoid duplication of effort by relying, to the extent possible, on internal audit activities.

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## Agency Audits

Agencies of the Crown are audited annually as required by legislation. While value for money observations may arise during these audits, the Office also periodically performs more in-depth value for money audits at selected agencies.

## Special Assignments

The Office may undertake special assignments at ministries and their agencies as requested by the Legislature, the Standing Committee on Public Accounts or a minister of the Crown. These audits are scheduled as resources permit.

# REPORTING ACTIVITIES

## Ministry Audits

Our draft reports and management letters are considered to be an integral part of our audit working papers and, according to section 19 of the *Audit Act*, are not required to be laid before the Assembly or any of its committees.

The Office prepares a preliminary draft report for discussion and factual clearance as each audit is completed. The preliminary draft report is discussed with senior ministry officials and revised, as necessary, to reflect the results of the discussion. All draft reports are also reviewed with the respective deputy minister and contain the ministry response. Following clearance of preliminary draft reports and responses at the deputy minister level, a final draft report is prepared and issued to the deputy minister and, where deemed necessary, to the minister. We also provide a copy of all final draft reports to the Secretary of Management Board of Cabinet. These final draft audit reports form the basis for the preparation of our *Annual Report* to the Legislative Assembly.

## Agency Audits

With respect to attest audits of agencies, agency legislation normally stipulates that the Provincial Auditor's reporting responsibilities are to the agency's board and the minister responsible. Also, we provide copies of all audited agency financial statements to the Secretary of Management Board of Cabinet, as well as to the deputy minister of the associated ministry.

In instances where major deficiencies have been noted during the course of an agency attest audit, a draft management letter is prepared and discussed with senior management and revised, as necessary, to reflect the results of the discussion. The draft management letter is also reviewed with the agency's chief executive officer and contains management's response. Following clearance of the draft management letter and responses at the agency's senior management level, a final management letter is prepared and, if deemed necessary, issued to the agency head (chair). Depending on the significance of the content of the management letter, a copy of the management letter may also be forwarded to the minister and deputy minister of the associated ministry and to the Secretary of the Management Board of Cabinet. Matters of significance contained in the management letter may also be included in the Provincial Auditor's *Annual Report* to the Legislative Assembly.

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## Special Assignments

Under sections 16 and 17 of the *Audit Act*, the Office has additional reporting responsibilities relating to special assignments for the Legislative Assembly, the Standing Committee on Public Accounts or a Minister of the Crown. At the conclusion of such work, the Provincial Auditor normally reports to the initiating authority of the assignment.

During the period of audit activity (October 1993 to September 1994) covered by this Report, the Office was involved with the following special assignments requested by the Committee under section 17 of the *Audit Act*:

- A value for money audit of the Office of the Ombudsman as part of the 1992/93 financial audit of the Office of the Ombudsman. The Committee also directed that the Provincial Auditor's report on this assignment not be tabled with the Committee, but for the Ombudsman to table the report with the chair of the Board of Internal Economy within 30 days of receiving the report from the Provincial Auditor.  
Our report on the value for money audit of the Office of the Ombudsman was submitted to the Ombudsman on December 2, 1993.
- The effectiveness of the collection procedures at Central Collection Services. We reported to the Committee in June 1994.
- The renovations and replacement of furniture at the General Division Courthouse at 361 University Avenue, Toronto, including the costs thereof and when such renovations were last carried out, and the quantities of certain assets purchased by Ontario Hydro. The results of our reviews have been reported to the Committee for its consideration.

## OFFICE ORGANIZATION AND PERSONNEL

The Office organization consists of management teams, each of which is headed by a Director responsible for the audits of a sizeable portfolio. Audit managers are assigned to portfolios. The composition of the portfolios attempts to put together somewhat related audit entities and to foster expertise in the various areas of audit activity. The portfolio Directors, together with the Director of Audit Operations, the Director of Human Resources, the Assistant Provincial Auditor and the Provincial Auditor, make up the Office's Executive Steering Committee (ESC). The executive management of the Office as at September 30, 1994 consisted of:

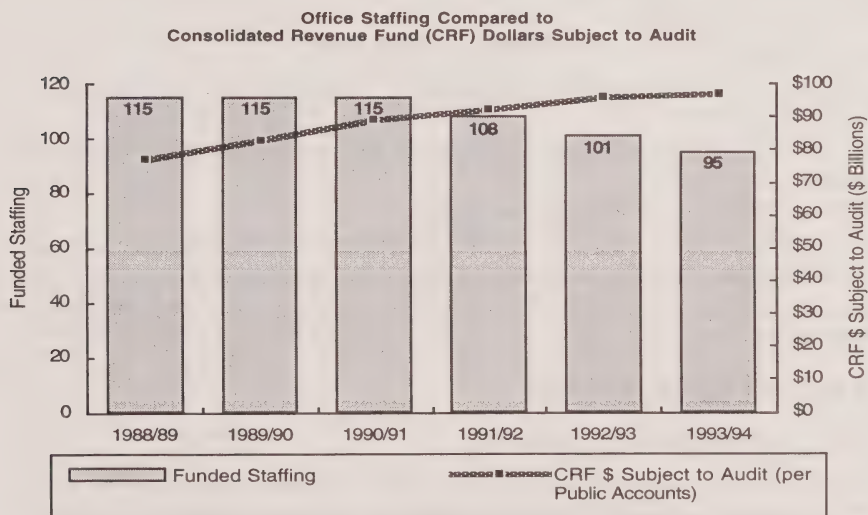
Erik Peters, FCA	- Provincial Auditor
Ken Leishman, CA	- Assistant Provincial Auditor
Jim McCarter, CA	- Executive Director, Finance, Revenue, Public Accounts and General Government Portfolio
Dinkar Amrite, CA	- Director, Community and Social Services Portfolio
Walter Bordne, CA	- Director, Economic Development Portfolio
Andrew Cheung, CA	- Director, Justice and Regulatory Portfolio
John McDowell, CA	- Director, Crown Agencies, Corporations, Boards and Commissions Portfolio
Nick Mishchenko, CMA	- Director, Health Portfolio
Gary Peall, CA	- Director, Education and Training, Housing and Municipal Affairs Portfolio
Gerard Fitzmaurice, CA	- Director, Audit Operations
Dan Gordon	- Director, Human Resources

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The audit managers, together with the members of the ESC, constitute the Office's Resource Planning and Allocation Committee. All audit staff below the level of audit manager are assigned to audits from an audit staff pool administered by the Director of Audit Operations, with assistance from the Director of Human Resources.

The most important resource of the Office is our staff. The 1993/94 approved budget of the Office provided for 95 funded staff positions after complying with the requirements of the Social Contract.

As illustrated in the following chart, the number of funded staffing positions has declined by 20 positions from 1988/89 levels, although the Consolidated Revenue Fund dollars subject to audit by this Office have increased by more than 25% during this six-year period. In addition, the statutory attest audit workload of the Office in respect of Crown agencies continues to increase with the establishment of several new agencies. There is also increased effort with the introduction of summary financial statements of the Province, which are being prepared at our urging to give Ontarians a clearer and fuller understanding of the financial affairs of the Province. At the same time we note that significant improvements need to be made in financial management and control in the government, including the internal audit function. There is also an increasing expectation from legislators for value for money audit work and for improved transfer payment accountability.



The reduction to our funded staffing levels, while the revenues and spending subject to audit are increasing, is becoming a concern. We note that Ontario is now by some measures the leanest legislative audit operation in Canada.

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## CODE OF PROFESSIONAL CONDUCT

The Office has developed a *Code of Professional Conduct* to encourage staff to maintain high professional standards and ensure a professional work environment. It is intended to be a general statement of philosophy, principles and rules regarding conduct for employees of the Office, who have a duty to conduct themselves in a professional manner and to strive to achieve the highest standards of behaviour, competence and integrity in their work. The Code provides the reasoning for these expectations and further describes the Office's responsibilities to the Legislative Assembly, the public and our audit entities. The Code also provides guidance on disclosure requirements and the steps to be taken to avoid conflict of interest situations.

## CANADIAN CONFERENCE OF LEGISLATIVE AUDITORS

The twenty-second annual meeting of the Conference of Legislative Auditors was held in Charlottetown, Prince Edward Island from July 10 to 12, 1994. This annual gathering, bringing together legislative auditors from the federal government and the provinces, provides a useful forum for sharing ideas and exchanging information important to the work of the legislative auditing community.

This year's conference, attended by the Provincial Auditor and the Assistant Provincial Auditor, covered such topics as:

- accountability;
- results of the 1993 Study Groups on Comprehensive Audit Reporting and on the Health Care Sector;
- follow-up on 1992 Study Groups on Compliance-with-Authorities Auditing and on the Canada Pension Plan;
- Standards for Assurance Engagements;
- update and discussion of the activities of the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants; and
- a joint session with the Canadian Council of Public Accounts Committees on the subject of "Fiscal Federalism".

## ACKNOWLEDGEMENTS

### EXTERNAL ADVISORY COMMITTEE

The external Advisory Committee periodically reviews the Office's audit approach, analyzes the Office profile, and provides advice relating to sensitive audit issues. The Committee meets once or twice each year on the call of the Provincial Auditor.

The Committee's members combine the independence of current association with the private sector with extensive knowledge of the parliamentary system and the function of government. The current members are Messrs. Rendall Dick, LSM; David Knight, FCA; Robert Lord, FCA; Ron Moore, FCA; and David Wilson, FCA.

## AUDITEES AND STAFF

The Provincial Auditor expresses his sincere appreciation to the officials of ministries, agencies and other entities for their co-operation in providing our staff with all the information and explanations required during the performance of the Office's audit work.

The Office expresses its appreciation to Mr. Jim Otterman, FCA, Assistant Provincial Auditor since 1982, Acting Provincial Auditor for the 1992 year, and member of the Office since 1978. Mr. Otterman retired from the Office on February 28, 1994. In his years with the Office, Mr. Otterman made many important contributions to the functioning of the Office and to the many reports issued by the Office. He was also a very valuable member of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants and of the Disciplinary Committee of the Institute of Chartered Accountants of Ontario for several years. Staff who had the privilege of working with him will miss his thoughtful professionalism, his ready and valuable advice, and his insights.

A special appreciation is extended to the staff of the Office for their dedication, competence and the professional manner in which they have carried out their duties.

## OFFICE EXPENDITURE

The following is the 1994 audited Statement of Expenditure for the Office.

**Office of the Provincial Auditor  
Statement of Expenditure  
For the Year Ended March 31, 1994**

	1994		1993	
	<u>Actual</u> (\$000s)	<u>Estimates</u> (\$000s)	<u>Actual</u> (\$000s)	<u>Estimates</u> (\$000s)
Salaries and wages (note 2)	5,001	5,113	4,991	5,215
Employee benefits (note 2)	1,095	990	883	920
Transportation and communication	212	344	314	249
Services	1,367	1,341	1,456	1,444
Supplies and equipment	77	70	71	48
Transfer payments -				
Canadian Comprehensive				
Auditing Foundation	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>
	7,802	7,908	7,765	7,926
The Audit Act	<u>156</u>	<u>188</u>	<u>120</u>	<u>123</u>
	<b>7,958</b>	<b>8,096</b>	<b>7,885</b>	<b>8,049</b>

*Notes:*

**1. Accounting Policy**

*The statement of expenditure has been prepared using a modified cash basis of accounting which allows for an additional 30 days to pay for goods and services received during the fiscal year just ended.*

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2. *Social Contract*

*The 1994 Estimates for salaries and wages have been reduced by \$242,000 to reflect the requirements of the Social Contract. Employee benefits include retirement allowances of \$128,000 paid to employees who elected early retirement options.*

**Auditors' Report**

TO THE BOARD OF INTERNAL ECONOMY  
THE PROVINCE OF ONTARIO

We have audited the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1994. This statement is the responsibility of the organization's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation.

In our opinion, this statement presents fairly, in all material respects, the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1994 in accordance with the accounting policy referred to in note 1 to the statement.

Toronto, Ontario  
July 27, 1994

ALLEN & MILES  
CHARTERED ACCOUNTANTS

# The Standing Committee on Public Accounts

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## APPOINTMENT AND COMPOSITION OF THE COMMITTEE

The Standing Orders of the Legislative Assembly provide for the appointment of an all-party Standing Committee on Public Accounts for each session of Parliament.

The membership of the Committee is approximately proportional to the respective party membership in the Legislature. All members are entitled to vote on motions with the exception of the Chair, whose vote is restricted to the breaking of a tie.

In accordance with the Standing Orders, a Standing Committee on Public Accounts was appointed on April 20, 1993, soon after the commencement of the Third Session of the Thirty-fifth Parliament. The membership of the Committee at June 23, 1994 when the House adjourned for the summer recess was as follows:

Joseph Cordiano, Chair, Liberal  
Dianne Poole, Vice-Chair, Liberal  
Gilles Bisson, New Democrat  
Robert Callahan, Liberal  
Bruce Crozier, Liberal  
Robert Frankford, New Democrat  
Rosario Marchese, New Democrat  
Margaret Marland, Progressive Conservative  
Larry O'Connor, New Democrat  
Stephen Owens, New Democrat  
Anthony Perruzza, New Democrat  
David Tilson, Progressive Conservative

## ROLE OF THE COMMITTEE

The Committee examines, assesses and reports to the Legislature on a number of issues, including the economy and efficiency of government operations; the effectiveness of programs in achieving their objectives; controls over assets, expenditures and the assessment and collection of revenues; and the reliability and appropriateness of information in the *Public Accounts*.

In fulfilling this role, the Committee reviews and reports to the Assembly its observations, opinions and recommendations on selected matters in the *Annual Report of the Provincial*

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Auditor, Special Reports by the Provincial Auditor and the Provincial Auditor's Report on the Public Accounts. These documents are deemed to have been permanently referred to the Committee as soon as they are tabled.

## PROVINCIAL AUDITOR'S ROLE IN THE PROCESS

The Provincial Auditor assists the Committee by providing appropriate audit information for use by the Committee in its scrutiny of government programs and financial activities.

Additionally, the Provincial Auditor and senior staff attend Committee meetings to assist the Committee in planning its agenda and during its review of the Public Accounts and the *Annual Report* of the Provincial Auditor.

## COMMITTEE PROCEDURES AND OPERATIONS

### GENERAL

The Committee meets on Thursday mornings when the Legislature is sitting. For the past several years it has also met more frequently during the summer and winter when the Legislature has not been sitting. All meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of Committee reports.

At meetings dealing with ministry operations, the deputy minister, usually accompanied by senior ministry officials, answers questions raised by Committee members. Since the Committee is concerned with administrative rather than policy matters, ministers rarely attend. When the Committee is reviewing Crown agencies, the chief executive officer and, at times, the chair of the board attend the meetings. They are usually accompanied by senior agency staff.

### MEETINGS HELD

From October 1993 to September 1994, the Committee met regularly on its designated meeting day while the Legislature was sitting and also during the 1994 winter and summer recesses. The Committee's work during this period included:

- reviews of the following sections of the Provincial Auditor's 1992 and 1993 *Annual Reports*:
  - Non-Profit Housing (1992)
  - Health Registration System (1992)
  - Curriculum Development (1993)
  - Special Education (1993)
  - Institutional Services (1993)
  - Child and Family Intervention Program (1993)
  - Young Offender Services (1993);
- finalizing its reports to the Legislative Assembly;
- a review of the accounting policies of the Government of Ontario;
- discussions concerning amending the *Audit Act* to broaden the Provincial Auditor's mandate in respect of inspection audits of recipients of government grants;

- 
- hearings in respect of issues concerning Houselink Community Homes Inc. and the Supportive Housing Coalition;
  - consideration of the Provincial Auditor's presentation on "Governance by Boards of Directors"; and
  - organizing the Committee's agenda.

## REQUESTS FOR SPECIAL AUDITS

During the October 1993 to September 1994 period, the Committee did not pass any motions under the sections 16 and 17 provisions of the *Audit Act*.

Our 1993 Report included reference to special assignment requests pursuant to section 17 of the *Audit Act*, requesting the Provincial Auditor to perform special audits and report to the Committee on the following:

- the effectiveness of the collection procedures at Central Collection Services;
- the renovations and replacement of furniture at the General Division Courthouse at 361 University Avenue, Toronto, including costs thereof and when such renovations were last carried out, and the quantities of certain assets purchased by Ontario Hydro.

The Provincial Auditor's reports dealing with each of these motions have been submitted to the Committee for its consideration.

## COMMITTEE PROCEDURES

In recent years the Committee has adopted the following procedures and approaches to increase its effectiveness:

- in-depth briefings and preparation;
- fact-finding hearings;
- more frequent reporting to the Legislature;
- when practical, the inclusion of ministry responses in Committee reports;
- increased follow-up of Committee recommendations; and
- site visits to discuss concerns and obtain first-hand knowledge of everyday working conditions in the field.

The Committee also follows up in writing with those ministries and Crown agencies not selected for detailed review by the Committee on their plans and timetable to address the concerns raised in the Provincial Auditor's *Annual Report*. This innovation allows the auditee to update the Committee on activities since the completion of the audit, such as any initiatives taken to address the Provincial Auditor's recommendations.

## REPORTS OF THE COMMITTEE

### GENERAL

The Committee issues its reports to the Legislature. Each report consists of a précis of the information reviewed by the Committee during its meetings, together with its comments and recommendations.

All reports are available through the Clerk of the Committee, thus affording public access to full details of Committee deliberations.

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## COMPLETED COMMITTEE REPORTS

During the October 1993 to September 1994 period, the Committee made the following reports to the Legislative Assembly:

- Report on Non-Profit Housing;
- Interim Report on the Health Registration System; and
- Report on Issues Concerning Houselink Community Homes Inc. and the Supportive Housing Coalition.

Additionally, the following reports were finalized:

- Report on Child and Family Intervention Program and Young Offender Services;
- Report on Special Education;
- Report on Curriculum Development;
- Report on Institutional Services; and
- 1992/93 Biennial Report.

## FOLLOW-UP OF RECOMMENDATIONS MADE BY THE COMMITTEE

The Clerk of the Committee is responsible for following up the actions taken by ministries or agencies on the Committee's recommendations. Our Office confers with the Clerk to ascertain the status of the recommendations and bring any significant matters to the attention of the Legislature in our Annual Reports.

## STATUS OF COMMITTEE RECOMMENDATION RESPECTING AMENDMENTS TO THE *AUDIT ACT*

As mentioned in our 1993 *Annual Report*, the Committee gave the Provincial Auditor approval in principle in June 1993 to pursue the establishment of a workable legislated accountability framework by central agencies before proceeding with any amendments to the *Audit Act*. In this regard, discussions have been ongoing between this Office and central agencies' representatives on the subject of a legislated accountability framework; however, progress has been very slow and there does not appear to be an agreement on the part of senior officials within the central agencies on the need for a legislated accountability framework. Consequently, this Office has come to accept that there does not appear to be any short-term prospect of putting the government into a position to ensure through legislation that more appropriate accountability, including value for money, is obtained for government expenditures, especially expenditures in the form of grants. Nevertheless, this Office will continue to advocate the need to strengthen accountability to the Legislature.

Subsequent to deliberations by the Committee on special education grants to school boards, on May 2, 1994 the Provincial Auditor wrote to the Chair of the Standing Committee on Public Accounts, in part, as follows:

*I am writing to make a proposal to the Standing Committee on Public Accounts that it consider recommending to the Minister of Finance, that he initiate an appropriate amendment to the Audit Act which would provide the Provincial Auditor with the discretionary authority to audit a recipient of a government grant on a basis consistent with the full scope of the Audit Act.*

As you know, subsection 13(1) of the Audit Act permits the Auditor to perform an inspection audit of a recipient of a grant from the Consolidated Revenue Fund or an agency of the Crown; however, the definition of an inspection audit in section 1 of the Act is narrowly defined as "an examination of accounting records" and from our experiences has a scope limiting financial audit connotation. The proposed amendment should therefore expand on the current discretionary inspection audit provision to permit the Provincial Auditor to perform a full scope audit, including value for money, of a grant recipient.

Accordingly, one approach would be to broaden the definition of section 1 of the Audit Act to read:

*"inspection audit" means the audit of such records and information as the Auditor deems necessary to perform the duties under this Act.*

On May 12, 1994, the Committee met to consider the Provincial Auditor's proposal and after some discussion unanimously passed the following resolution:

*That the Standing Committee on Public Accounts recommends to the Minister of Finance that public hearings be held to consider amendments to the Audit Act, including increasing the Provincial Auditor's scope of value for money audits to include payments to transfer [payment] recipients, and that this be done without delay.*

On May 25, 1994, the Chair of the Committee wrote to the Minister of Finance to formally advise him of the Committee's unanimous resolution.

It is the Provincial Auditor's view that broadening the definition of inspection audit in section 1 of the *Audit Act* is the only substantive change to the Act required in the foreseeable future. On August 16, 1994 the Provincial Auditor met with the Minister of Finance to discuss the subject of amendments to the *Audit Act*. Indications are that the Committee will become involved in the proposed consultation process prior to amendments being introduced in the Legislative Assembly.

## OTHER COMMITTEE ACTIVITIES

### CANADIAN COUNCIL OF PUBLIC ACCOUNTS COMMITTEES

The sixteenth annual meeting of the Council was held in Charlottetown, Prince Edward Island from July 10 to 12, 1994.

These annual meetings, normally attended by Public Accounts Committee members from all the provinces, the territories, and the federal government, provide a forum for the exchange of ideas and information.

The annual meeting included:

- a round table discussion of each delegation's Public Accounts Committee activities during the past year;
- sessions dealing with Public Accounts Committees and partisanship; information for Parliament on deficits and debt; accountability of publicly funded entities; and
- a joint session with the Conference of Legislative Auditors on the subject of "Fiscal Federalism".

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## EXHIBIT ONE

# Value for Money Audits Conducted in 1993/94

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### MINISTRY OF THE ATTORNEY GENERAL

- Family Support Plan

### MINISTRY OF COMMUNITY AND SOCIAL SERVICES

- Child Welfare Services
- General Welfare
- Violence against Women

### MINISTRY OF EDUCATION AND TRAINING

- jobsOntario Training Program

### MINISTRY OF ENVIRONMENT AND ENERGY

- Water and Sewage Treatment Programs

### MINISTRY OF HEALTH

- Community Health Programs
- Hospital Grants

### MINISTRY OF HOUSING

- Rent Regulation Program

### MINISTRY OF NATURAL RESOURCES

- Forest Management

### MINISTRY OF THE SOLICITOR GENERAL AND CORRECTIONAL SERVICES

- Ontario Provincial Police

### MINISTRY OF TRANSPORTATION

- Driver's Licences
- Municipal Roads

# Agencies of the Crown

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## (I) AGENCIES WHOSE ACCOUNTS ARE AUDITED BY THE PROVINCIAL AUDITOR

Agricultural Rehabilitation and Development Directorate of Ontario  
Alcoholism and Drug Addiction Research Foundation  
Algonquin Forestry Authority  
Centennial Centre of Science and Technology  
Commission on Election Finances  
Crop Insurance Commission of Ontario  
Eastern Ontario Development Corporation  
Egg Fund Board (December 31), Fund for Egg Producers  
*Election Act* - Election Fees and Expenses  
Environmental Compensation Corporation  
Farm Income Stabilization Commission of Ontario  
Grain Financial Protection Board, Funds for Producers of Grain Corn and Soybeans,  
Fund for Producers of Canola  
Innovation Ontario Corporation  
Interim Gross Revenue Insurance Plan Program Account  
Interim Waste Authority Ltd.  
Legal Aid Fund, Law Society of Upper Canada  
Liquor Control Board of Ontario  
Livestock Financial Protection Board, Fund for Livestock Producers  
Northern Ontario Development Corporation  
Northern Ontario Heritage Fund Corporation  
Office of the Assembly

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Office of the Environmental Commissioner  
Office of the Information and Privacy Commissioner  
Office of the Official Guardian  
Office of the Ombudsman  
Ontario Aerospace Corporation  
Ontario Agricultural Museum  
Ontario Cancer Treatment and Research Foundation  
Ontario Clean Water Agency (December 31)  
Ontario Development Corporation  
Ontario Educational Communications Authority  
Ontario Farm Products Marketing Commission, Fund for Milk and Cream Producers  
Ontario Film Development Corporation  
Ontario Financing Authority  
Ontario Food Terminal Board  
Ontario Heritage Foundation  
Ontario Housing Corporation (December 31)  
Ontario Industrial Training Institute  
Ontario International Corporation  
Ontario Junior Farmer Establishment Loan Corporation  
Ontario Lottery Corporation  
Ontario Northland Transportation Commission (December 31)  
Ontario Place Corporation  
Ontario Racing Commission  
Ontario Realty Corporation  
Ontario Stock Yards Board (June 30)  
Ontario Training and Adjustment Board  
Ontario Training Corporation  
Ontario Transportation Capital Corporation  
Ontario Waste Management Corporation  
Pension Commission of Ontario

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Police Complaints Commissioner

Potato Financial Protection Board, Fund for Producers of Potatoes for Processing

Processing-Vegetable Financial Protection Board, Fund for Producers of Vegetables for Processing

Province of Ontario Council for the Arts

Provincial Judges Pension Fund, Provincial Judges Pension Board

Public Sector Job Security Fund, Public Sector Labour Market and Productivity Commission

Public Trustee of the Province of Ontario

Rent Review Hearings Board

Superannuation Adjustment Fund

Tobacco Diversification Fund, Tobacco Diversification Committee

## **(II) AGENCIES WHOSE ACCOUNTS ARE AUDITED BY ANOTHER AUDITOR UNDER THE DIRECTION OF THE PROVINCIAL AUDITOR**

Board of Community Mental Health Clinic, Guelph

Clarke Institute of Psychiatry

Niagara Parks Commission (October 31)

Ontario Cancer Institute

Ontario Mental Health Foundation

St. Clair Parkway Commission (December 31)

St. Lawrence Parks Commission

Toronto Area Transit Operating Authority

Workers' Compensation Board (December 31)

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### NOTES:

1. Dates in parentheses indicate fiscal periods ending on a date other than March 31.
2. Changes during the 1994 fiscal year:  
*Newly Established Agencies of the Crown:*
  - Office of the Environmental Commissioner
  - Ontario Clean Water Agency (December 31)
  - Ontario Financing Authority

- 
- Ontario Realty Corporation
  - Ontario Training and Adjustment Board
  - Ontario Transportation Capital Corporation
  - Public Sector Job Security Fund, Public Sector Labour Market and Productivity Commission
  - Tobacco Diversification Fund, Tobacco Diversification Committee

*Deletions:*

- Ontario Land Corporation
- Ontario Municipal Improvement Corporation

3. Inactive agencies as at March 31, 1993:

- North Pickering Development Corporation
- Ontario Deposit Insurance Corporation
- Ontario Pavilion Expo '86
- Ontario Telephone Development Corporation

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## EXHIBIT THREE

# Crown Controlled Corporations

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**CORPORATIONS WHOSE ACCOUNTS ARE AUDITED BY AN AUDITOR OTHER THAN THE PROVINCIAL AUDITOR, WITH FULL ACCESS BY THE PROVINCIAL AUDITOR TO AUDIT REPORTS, WORKING PAPERS, AND OTHER RELATED DOCUMENTS**

Board of Funeral Services

Board of Governors of The Ontario Institute for Studies in Education

Brock University Foundation

Carleton University Foundation

Corporation of the Improvement District of Gauthier

Corporation of the Improvement District of Matachewan

Foundation at Queen's University at Kingston

Lakehead University Foundation

McMaster University Foundation

McMichael Canadian Art Collection

Metropolitan Toronto Convention Centre Corporation

Moosonee Development Area Board

Nipissing University Foundation

Ontario Casino Corporation

Ontario Centre for Resource Machinery Technology

Ontario Cream Producers' Marketing Board

Ontario Energy Corporation

Ontario Historical Studies Series

Ontario Hydro

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Ontario Milk Marketing Board  
Ontario Mortgage Corporation  
Ontario Municipal Employees Retirement Board  
Ontario Pension Board  
Ontario Share and Deposit Insurance Corporation  
Ontario Teachers' Pension Plan Board  
Ontario Transportation Development Corporation  
Ontario Trillium Foundation  
Ortech Corporation  
Ottawa Congress Centre  
Royal Ontario Museum  
Science North  
Stadium Corporation of Ontario Limited  
Teranet Land Information Services Inc.  
Thunder Bay Ski Jumps Limited  
Trent University Foundation  
University of Guelph Foundation  
University of Toronto Foundation  
University of Waterloo Foundation  
University of Windsor Foundation  
Urban Transportation Development Corporation Limited  
Waterfront Regeneration Trust Agency  
Wilfrid Laurier University Foundation  
York University Foundation

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NOTE:

Changes during the 1994 fiscal year:

*Newly Established Crown controlled corporations:*

- Brock University Foundation
- Carlton University Foundation
- Foundation at Queen's University at Kingston
- Lakehead University Foundation

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- McMaster University Foundation
  - Nipissing University Foundation
  - Ontario Casino Corporation
  - Trent University Foundation
  - University of Guelph Foundation
  - University of Toronto Foundation
  - University of Waterloo Foundation
  - University of Windsor Foundation
  - Wilfrid Laurier University Foundation
  - York University Foundation

*Deletions:*

- Board of Ophthalmic Dispensers
- Board of Radiological Technicians
- Governing Board of Dental Technicians
- Governing Board of Denture Therapists
- Ontario Board of Examiners in Psychology

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## EXHIBIT FOUR

# Status of Previous Annual Report Recommendations

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This exhibit provides the status of all suggested corrective action and recommendations which were either considered unresolved per Exhibit 4 of the 1993 *Annual Report* or contained in the body of the 1993 *Annual Report*.

### RESOLVED AS AT DATE OF PREPARATION OF 1994 PROVINCIAL AUDITOR'S REPORT:

<u>Report</u>	<u>Section</u>	<u>Description/Status</u>
<b>CROSS-MINISTRY REVIEWS</b>		
1992	2.02	Information Technology Security <ul style="list-style-type: none"><li>• In process of implementation.</li></ul>
<b>MINISTRY REVIEWS</b>		
<b>Agriculture and Food</b>		
1992	3.01	Market Revenue Program <ul style="list-style-type: none"><li>• In process of implementation.</li></ul>
<b>Community and Social Services</b>		
1992	3.03	Family Benefits Assistance <ul style="list-style-type: none"><li>• In process of implementation.</li></ul>
<b>Consumer and Commercial Relations</b>		
1992	3.04	Elevating Devices <ul style="list-style-type: none"><li>• In process of implementation.</li></ul>

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1992	3.05	Real Property Registration
		<ul style="list-style-type: none"> <li>• Implemented.</li> </ul>
1993	3.06	Registrar General Imaging System
		<ul style="list-style-type: none"> <li>• In process of implementation.</li> </ul>
<b>Education and Training</b>		
1993	3.09	Information Technology Project at the Student Support Branch
		<ul style="list-style-type: none"> <li>• In process of implementation.</li> </ul>
<b>Environment</b>		
1992	3.06	Surface Water Quality Improvement
		<ul style="list-style-type: none"> <li>• In process of implementation.</li> </ul>
<b>Government Services</b>		
1992	3.07	Corporate Payroll System
		<ul style="list-style-type: none"> <li>• In process of implementation.</li> </ul>
<b>Housing</b>		
1992	3.11	Microcomputer Network
		<ul style="list-style-type: none"> <li>• Implemented.</li> </ul>
1992	3.12	Non-Profit Housing
		<ul style="list-style-type: none"> <li>• In process of implementation.</li> </ul>
<b>Natural Resources</b>		
1992	3.14	Timber Stumpage, Hunting and Fishing Licences, and Provincial Park Fees
		<ul style="list-style-type: none"> <li>• Substantially implemented.</li> </ul>
<b>Revenue</b>		
1992	3.16	Employer Health Tax
		<ul style="list-style-type: none"> <li>• Substantially implemented.</li> </ul>
1992	3.17	Property Assessment Operations
		<ul style="list-style-type: none"> <li>• Substantially implemented.</li> </ul>

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### **Solicitor General and Correctional Services**

- |      |      |  |
|------|------|--|
| 1993 | 3.19 | Ontario Municipal and Provincial Police Automation Co-operative              |
|      |      | <ul style="list-style-type: none"><li>• Substantially implemented.</li></ul> |

### **Transportation**

- |      |      |  |
|------|------|--|
| 1992 | 3.18 | Highway Maintenance Activities   |
|      |      | <ul style="list-style-type: none"><li>• Partially implemented.</li></ul> |

## **CROWN AGENCIES**

### **Liquor Control Board of Ontario**

- |      |      |   |
|------|------|---|
| 1992 | 3.13 | Selling Prices, Transportation of Liquor, and Treasury Operations |
|      |      | <ul style="list-style-type: none"><li>• Implemented.</li></ul>    |

### **Public Trustee of Ontario**

- |      |      |   |
|------|------|---|
| 1992 | 3.15 | Administration of Trusts and Estates  |
|      |      | <ul style="list-style-type: none"><li>• In process of implementation.</li></ul> |

## **TO BE REVIEWED IN SUBSEQUENT YEARS:**

The status of recommendations will normally be determined during the next cyclical audit of the areas involved. However, where possible, we endeavour to ascertain the status earlier.

### **Agriculture and Food**

- |      |      |                                      |
|------|------|--------------------------------------|
| 1993 | 3.01 | Crop Insurance Commission of Ontario |
|------|------|--------------------------------------|

### **Attorney General**

- |      |      |                        |
|------|------|------------------------|
| 1993 | 3.02 | Criminal Law           |
| 1993 | 3.03 | Ontario Legal Aid Plan |

### **Community and Social Services**

- |      |      |                                       |
|------|------|---------------------------------------|
| 1993 | 3.04 | Child and Family Intervention Program |
| 1993 | 3.05 | Young Offender Services               |

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<b>Education and Training</b>		
1993	3.07	Curriculum Development
1993	3.08	Special Education
<b>Environment and Energy</b>		
1993	3.10	Transfer Payments under the Energy Development and Management Program
<b>Finance</b>		
1993	3.11	Ontario Insurance Commission
<b>Health</b>		
1992	3.10	Health Registration System
1993	3.12	Ontario Health Insurance Plan
1993	3.13	Public Health Activity
1993	3.14	Equipment Leasing
<b>Natural Resources</b>		
1993	3.15	Grants to Conservation Authorities
<b>Solicitor General and Correctional Services</b>		
1993	3.16	Emergency Planning Ontario
1993	3.17	Institutional Services
1993	3.18	Office of the Fire Marshal
<b>Workers' Compensation Board</b>		
1993	3.21	Observations on the Annual Statutory Audit

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## EXHIBIT FIVE

# Treasury Board Orders

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### AMOUNTS AUTHORIZED AND EXPENDED THEREUNDER YEAR ENDED MARCH 31, 1994

Ministry	Date of Order	Authorized	Expended
		\$	\$
Agriculture, Food and Rural Affairs	Mar. 29, 1994	<u>13,106,300</u>	<u>11,406,527</u>
Attorney General	Oct. 5, 1993	2,700,000	2,700,000
	Nov. 30, 1993	180,900	180,900
	Feb. 1, 1994	14,300,000	13,534,458
	Feb. 15, 1994	1,500,000	1,459,910
	Mar. 8, 1994	4,370,700	4,025,095
	Apr. 12, 1994	7,160,300	7,004,815
	Apr. 19, 1994	<u>1,310,000</u>	<u>1,307,579</u>
		<u>31,521,900</u>	<u>30,212,757</u>
Citizenship	Mar. 29, 1994	<u>429,900</u>	<u>99,795</u>
Community and Social Services	Mar. 22, 1994	261,312,600	259,937,128
	Apr. 19, 1994	<u>19,899,200</u>	<u>16,536,747</u>
		<u>281,211,800</u>	<u>276,473,875</u>
Consumer and Commercial Relations	Mar. 8, 1994	4,475,900	4,444,630
	Mar. 29, 1994	<u>2,532,100</u>	<u>2,525,504</u>
		<u>7,008,000</u>	<u>6,970,134</u>
Culture, Tourism and Recreation	Apr. 12, 1994	<u>6,198,400</u>	<u>1,419,239</u>

Ministry	Date of Order	Authorized	Expended
		\$	\$
Economic Development and Trade	Mar. 29, 1994	6,500,000	5,118,867
	Apr. 12, 1994	<u>6,700,000</u>	<u>6,195,471</u>
		<u>13,200,000</u>	<u>11,314,338</u>
Education and Training	Jan. 18, 1994	24,210,000	18,681,228
	Mar. 8, 1994	13,000,000	—
	Mar. 22, 1994	70,595,400	68,010,397
	Mar. 29, 1994	9,864,600	—
	Apr. 12, 1994	<u>1,216,700</u>	<u>—</u>
		<u>118,886,700</u>	<u>86,691,625</u>
Environment and Energy	Oct. 19, 1993	10,000,000	10,000,000
	Dec. 14, 1993	1,400,000	1,307,000
	Mar. 22, 1994	21,971,800	19,564,641
	Mar. 29, 1994	<u>8,500,000</u>	<u>8,499,847</u>
		<u>41,871,800</u>	<u>39,371,488</u>
Finance	Mar. 29, 1994	<u>5,108,100</u>	<u>4,172,887</u>
Health	Mar. 29, 1994	92,221,900	76,015,448
	Apr. 19, 1994	<u>36,805,300</u>	<u>33,546,776</u>
		<u>129,027,200</u>	<u>109,562,224</u>
Housing	Apr. 12, 1994	<u>16,976,000</u>	<u>12,393,480</u>
Labour	Dec. 14, 1993	<u>835,700</u>	<u>763,542</u>
Management Board Secretariat	Jan. 18, 1994	67,500,000	67,500,000
	Mar. 22, 1994	31,298,300	30,951,387
	Apr. 26, 1994	<u>1,570,000</u>	<u>1,536,946</u>
		<u>100,368,300</u>	<u>99,988,333</u>
Municipal Affairs	Apr. 12, 1994	<u>7,306,700</u>	<u>6,046,994</u>
Natural Resources	Mar. 8, 1994	9,800,000	8,412,047
	Apr. 12, 1994	<u>1,966,000</u>	<u>1,234,685</u>
		<u>11,766,000</u>	<u>9,646,732</u>

Ministry	Date of Order	Authorized	Expended
		\$	\$
Northern Development and Mines	Mar. 22, 1994	<u>147,400</u>	<u>—</u>
Solicitor General and Correctional Services	Mar. 29, 1994	<u>1,549,000</u>	<u>1,427,563</u>
Transportation	Mar. 29, 1994	<u>14,055,400</u>	<u>13,307,442</u>
<b>Total Board Orders</b>		<u>800,574,600</u>	<u>721,268,975</u>

# Extracts from the Audit Act

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Definitions

1. In this Act,

“agency of the Crown” means an association, authority, board, commission, corporation, council, foundation, institution, organization or other body,

- (a) whose accounts the Auditor is appointed to audit by its shareholders or by its board of management, board of directors or other governing body,
- (b) whose accounts are audited by the Auditor under any other Act or whose accounts the Auditor is appointed by the Lieutenant Governor in Council to audit,
- (c) whose accounts are audited by an auditor, other than the Auditor, appointed by the Lieutenant Governor in Council, or
- (d) the audit of the accounts of which the Auditor is required to direct or review or in respect of which the auditor’s report and the working papers used in the preparation of the auditor’s statement are required to be made available to the Auditor under any other Act,

but does not include one that the *Crown Agency Act* states is not affected by that Act or that any other Act states is not a Crown agency within the meaning or for the purposes of the *Crown Agency Act*;

“Auditor” means the Provincial Auditor;

“Crown controlled corporation” means a corporation that is not an agency of the Crown and having 50 per cent or more of its issued and outstanding shares vested in Her Majesty in right of Ontario or having the appointment of a majority of its board of directors made or approved by the Lieutenant Governor in Council;

“inspection audit” means an examination of accounting records;

“public money” has the same meaning as in the *Financial Administration Act*. R.S.O. 1990, c. A.35, s. 1.

Audit of  
Consolidated  
Revenue Fund

9.—(1) The Auditor shall audit, on behalf of the Assembly and in such manner as the Auditor considers necessary, the accounts and records of

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the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise.

Audit of agencies  
of the Crown

(2) Where the accounts and financial transactions of an agency of the Crown are not audited by another auditor, the Auditor shall perform the audit, and, despite any other Act, where the accounts and financial transactions of an agency of the Crown are audited by another auditor, the audit shall be performed under the direction of the Auditor and such other auditor shall report to the Auditor.

Audit of Crown  
controlled  
corporations

(3) Where the accounts of a Crown controlled corporation are audited other than by the Auditor, the person or persons performing the audit,

- (a) shall deliver to the Auditor forthwith after completion of the audit a copy of their report of their findings and their recommendations to the management and a copy of the audited financial statements of the corporation;
- (b) shall make available forthwith to the Auditor, when so requested by the Auditor, all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the corporation specified in the request;
- (c) shall provide forthwith to the Auditor, when so requested by the Auditor, a full explanation of work performed, tests and examinations made and the results obtained, and any other information within the knowledge of such person or persons in respect of the corporation.

Additional  
examination and  
investigation

(4) Where the Auditor is of the opinion that any information, explanation or document that is provided, made available or delivered to him or her by the auditor or auditors referred to in subsection (2) or (3) is insufficient, the Auditor may conduct or cause to be conducted such additional examination and investigation of the records and operations of the agency or corporation as the Auditor considers necessary. R.S.O. 1990, c. A.35, s. 9.

Information and  
access to records

10. Every ministry of the public service, every agency of the Crown and every Crown controlled corporation shall furnish the Auditor with such information regarding its powers, duties, activities, organization, financial transactions and methods of business as the Auditor from time to time requires, and the Auditor shall be given access to all books, accounts, financial records, reports, files and all other papers, things or property belonging to or in use by the ministry, agency of the Crown or Crown controlled corporation and necessary to the performance of the duties of the Auditor under this Act. R.S.O. 1990, c. A.35, s. 10.

Annual report

12.—(1) The Auditor shall report annually to the Speaker of the Assembly after each fiscal year is closed and the Public Accounts are laid before the Assembly, but not later than the 31st day of December in each year unless the Public Accounts are not laid before the Assembly by that day, and may make a special report to the Speaker at any time on any

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matter that in the opinion of the Auditor should not be deferred until the annual report, and the Speaker shall lay each such report before the Assembly forthwith if it is in session or, if not, not later than the tenth day of the next session.

Contents of  
report

- (2) In the annual report in respect of each fiscal year, the Auditor shall report on,
- (a) the work of the Office of the Auditor, and on whether in carrying on the work of the Office the Auditor received all the information and explanations required;
  - (b) the examination of accounts of receipts and disbursements of public money;
  - (c) the examination of the statements of Assets and Liabilities, the Consolidated Revenue Fund and Revenue and Expenditure as reported in the Public Accounts, and shall express an opinion as to whether the statements present fairly the financial position of the Province, the results of its operations and the changes in its financial position in accordance with the accounting principles stated in the Public Accounts applied on a basis consistent with that of the preceding fiscal year together with any reservations the Auditor may have;
  - (d) all special warrants issued to authorize payments, stating the date of each special warrant, the amount authorized and the amount expended;
  - (e) all orders of the Management Board of Cabinet made to authorize payments in excess of appropriations, stating the date of each order, the amount authorized and the amount expended;
  - (f) such matters as, in the opinion of the Auditor, should be brought to the attention of the Assembly including, without limiting the generality of the foregoing, any matter related to the audit of agencies of the Crown or Crown controlled corporations or any cases where the Auditor has observed that,
    - (i) accounts were not properly kept or public money was not fully accounted for,
    - (ii) essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to effectively check the assessment, collection and proper allocation of revenue or to ensure that expenditures were made only as authorized,
    - (iii) money was expended other than for the purposes for which it was appropriated,
    - (iv) money was expended without due regard to economy and efficiency, or

- 
- (v) where procedures could be used to measure and report on the effectiveness of programs, the procedures were not established or, in the opinion of the Auditor, the established procedures were not satisfactory. R.S.O. 1990, c. A.35, s. 12.

Inspection audit

13.—(1) The Auditor may perform an inspection audit in respect of a payment in the form of a grant from the Consolidated Revenue Fund or an agency of the Crown and may require a recipient of such a payment to prepare and to submit to the Auditor a financial statement that sets out the details of the disposition of the payment by the recipient.

Attendance at  
standing Public  
Accounts  
Committee of the  
Assembly

16. At the request of the standing Public Accounts Committee of the Assembly, the Auditor and any member of the Office of the Auditor designated by the Auditor shall attend at the meetings of the committee in order,

- (a) to assist the committee in planning the agenda for review by the committee of the Public Accounts and the annual report of the Auditor; and
- (b) to assist the committee during its review of the Public Accounts and the annual report of the Auditor,

and the Auditor shall examine into and report on any matter referred to him or her in respect of the Public Accounts by a resolution of the committee. R.S.O. 1990, c. A.35, s. 16.

Special  
assignments

17. The Auditor shall perform such special assignments as may be required by the Assembly, the standing Public Accounts Committee of the Assembly, by resolution of the committee, or by a minister of the Crown in right of Ontario but such special assignments shall not take precedence over the other duties of the Auditor under this Act and the Auditor may decline an assignment by a minister of the Crown that, in the opinion of the Auditor, might conflict with the other duties of the Auditor. R.S.O. 1990, c. A.35, s. 17.

Audit working  
papers

19. Audit working papers of the Office of the Auditor shall not be laid before the Assembly or any committee of the Assembly. R.S.O. 1990, c. A.35, s. 19.









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# 1995 ANNUAL REPORT

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## Office of the Provincial Auditor



ACCOUNTING  
ACCOUNTABILITY  
VALUE FOR MONEY

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THE HONOURABLE  
ALLAN McLEAN, M.P.P.

Speaker of the Legislative Assembly of Ontario

Dear Mr. McLean:

I am pleased to transmit my Annual Report for submission to the Assembly in accordance with the provisions of section 12(1) of the *Audit Act*.

A handwritten signature in black ink, reading "Erik Peters". The signature is written in a cursive, flowing style.

Erik Peters, FCA  
Provincial Auditor

November 14, 1995

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## CHAPTER ONE

# Overview

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## IMPROVING INFORMATION FOR DECISION-MAKING

### IMPROVING ACCOUNTING AND ACCOUNTABILITY

With my 1993 Annual Report, I advocated the pursuit by the government of the following formula:

Better accounting for the government's revenues, expenditures and financial affairs  
plus  
Better accountability for the government's performance in achieving legislated objectives  
equals  
Better value for the taxpayers' money.

Information provided to legislators for decision-making would be significantly improved if the same accounting rules and discipline were applied in determining the budgeted deficit as are used in determining the actual deficit in the Financial Statements in the *Public Accounts*, and if more effective evaluation of government performance in program and service delivery took place. Such information is especially useful for decision-making to cope with deficits and debt, and to reduce both.

### ACCOUNTING ISSUES

I am very pleased to report that the 1994/95 Financial Statements in the 1995 *Public Accounts* were prepared, consistent with the prior year, in accordance with accounting principles recommended for governments by the Public Sector Accounting and Auditing Board (PSAAB) of The Canadian Institute of Chartered Accountants (CICA). In 1993, I had strongly urged the government to more fully report on the nature and extent of its financial affairs and operations by changing from the modified cash basis of accounting to the accrual and consolidation basis of accounting as recommended by PSAAB. This recommendation was implemented beginning with the fiscal year ended March 31, 1994.

The actual deficits reflected in the 1994/95 and 1993/94 audited Financial Statements in the *Public Accounts*, on which I gave an unqualified auditor's opinion, were \$10.129 billion and \$10.848 billion, respectively. The deficits for those two years reported by the government on the budgetary accounting basis were \$8.030 billion and \$9.278 billion, respectively. In other words the cumulative actual deficits, using appropriate accounting rules and financial discipline, exceeded the deficits determined by the government on the budgetary accounting basis by \$3.669 billion. Of this amount, \$2.099 billion pertained to the year ended March 31, 1995. (A more detailed discussion of the \$2.099 billion is contained in Chapter Five.)

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As I did in my 1994 *Annual Report*, I continue to strongly advocate that the government adopt the same accounting policies, including the principle of substance over form, for the *Budget* and the *Estimates* as are used to determine the actual results.

In an unprecedented appearance before the Standing Committee on Finance and Economic Affairs on February 6, 1995, I urged the Ministry of Finance to overcome the confusion created by multi-billion dollar differences between budgeted and actual deficits by adopting the same basis of accounting and financial discipline in preparing the *Budget* as that used in the Financial Statements in the *Public Accounts*. A partial step in the right direction was taken by the government in the 1995 Budget Plan which included a *Comparison of Budget Presentation to Public Accounts Presentation*.

Further positive action on this issue was taken by the new government with its release of the *Ontario Fiscal Overview and Spending Cuts* document on July 21, 1995. This document introduced the financial discipline of treating loans which are financed through future appropriations as grants (expenses) in its projections with the deficit for the 1995/96 fiscal year.

On another issue, financial accountability would be improved if the government were to present an Annual Financial Report which would provide explanations and information for the reader to better understand and evaluate the financial performance, activities and condition of the government.

The foregoing and related issues are included in the mandate of the Ontario Financial Review Commission announced by the Minister of Finance on July 27, 1995. Since I had pressed for reform in the past, I was appointed as Special Advisor to the Commission under Section 17 of the *Audit Act*.

The Minister of Finance established this Commission because "the Government of Ontario considers that the public interest requires a review of the financial practices of the government, including its Crown corporations, boards and commissions, in order to restore credibility and confidence in the reporting of the financial position of the Province." The mandate of the Commission is to examine and report to the Minister on the following issues:

*The desirability of adopting Public Sector Accounting and Auditing Board accounting standards, currently used in the preparation of the summary Financial Statements, in the Estimates and Budget;*

*An assessment of reporting practices and activities of Crown agencies as directed by the Minister of Finance;*

*Advice on the appropriate reporting of and accounting for extraordinary items, including adjustments to asset values and such other required valuation changes as may be identified by the Commission;*

*Options for ensuring that timely and relevant information is available to the government to support decision-making, and to the public, to improve accountability;*

*Options for improving the financial management and reporting of government, including the timeliness and content of reports issued by the government (the*

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*estimates process, the provincial budget, quarterly finances, annual reports of Crown agencies, the Public Accounts of Ontario);*

*Options to provide Ontario with a prudent planning framework for the medium-term plan and a realistic budgeting framework for expenditure planning, including the use of contingency provisions for economic assumptions, revenue variations, and statutory spending; and*

*Any other related matters that may be recommended by the Commission and approved by the Minister of Finance, and any other matters as directed by the Minister of Finance, that will enable Ontario to achieve the overall objective of improving financial management and public accountability.*

*[As well,] the Commission shall provide an implementation plan including an estimate of cost, time and human resource requirements for each of its recommendations.*

*-Order in Council 1631/95*

Since the report of the Commission will be issued after the time period covered by this Report—October 1, 1994 to September 30, 1995—but likely very near the tabling date of this Report, I am obviously not in a position to comment on the Commission's report but look forward to the action that the government will take to implement the Commission's recommendations.

## **ACCOUNTABILITY**

There is growing realization by governments that they can no longer accumulate growing deficits and debt to provide services. The financial community is increasing its pressure on government to reduce deficits. Much government focus has therefore been—and continues to be—on doing more with less in trying to address the concerns of a public that, experiencing a decline in real income, finds increased taxes unacceptable but nevertheless demands more public services.

To survive, it will be necessary for programs, agencies and entire ministries to compete for resources. Those that are most accountable for their performance and can best demonstrate their effectiveness will have a much better chance of surviving.

Accountability issues are dealt with in this report in Chapter Two in two parts, which are summarized as follows:

### **2.01 Towards a Workable Legislated Accountability Framework**

It is essential that improvements be made by the government in performance management and assessing the effectiveness of program and service delivery, especially where such program and service delivery is funded by transfer payments to separately governed organizations. Such transfer payments account for about 51% (around \$28 billion) of all provincial government spending.

An integral part of these improvements would be to provide legislators with the tools to determine which of its "businesses" the government should continue as is, modify or

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discontinue. It is this performance and results focus that should be the driving force behind reducing spending, deficits and debts.

As covered in my annual reports of the last two years, I firmly believe that a workable legislated accountability framework is necessary for the effective management of government, its finances and spending, and its resources. Such a framework would provide better means for the Legislature to assess whether all funds have been and are being spent for the intended legislated purpose in a cost-effective manner. As well, it would also result in better information being provided to the Legislature for decision-making.

## **2.02      Legislative Assembly Legislative Estimates Review Process**

In 1989, in response to concerns expressed over the years about the effectiveness of the estimates review process, several changes were made, including the establishment of a new committee called the Standing Committee on the Estimates. This Committee was given the mandate to conduct a detailed review of the *Estimates* for selected ministries each year and report back to the Legislature.

We carried out a review to determine whether the 1989 revisions to the estimates review process have resulted in the anticipated improvement in the Legislature's ability to scrutinize and evaluate the ministries' proposed spending plans.

We interviewed nine MPPs, three from each political party who have served on the Standing Committee on the Estimates over the past few years, to determine whether the current estimates review process is effective. The consensus of the MPPs we interviewed was that the process was not sufficiently effective in ensuring that ministry spending plans receive appropriate scrutiny. Based on our discussions with the MPPs and our research into initiatives taking place in other Canadian and international jurisdictions, we concluded that the review process ought to be timed in such a way that the results of the MPPs' deliberations could influence the government's decision-making. As well, the review process would be improved if future-oriented business plans were provided to the Committee by the ministries appearing before them.

# **VALUE FOR MONEY AUDIT RECOMMENDATIONS**

Because of the size and complexity of the Province's operations and administration, it is impossible to audit each program every year. Instead, the Office conducts selected audits in a cycle, so that all major programs are considered for review every five years. The contents of this *Annual Report* were selected by the Office's senior management based on criteria such as financial impact, significance to the Legislature, public sensitivity or safety, and adherence to good management practices (economy, efficiency, and effectiveness measures).

Before beginning an audit, Office staff meet with auditee representatives to discuss the focus of the audit in general terms. During the audit, Office staff maintain an ongoing

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dialogue with the auditee to review the progress of the audit and ensure open lines of communication. After the audit staff conclude their on-site work, a draft report is prepared, reviewed internally, and discussed with the auditee. A management response to our recommendations is received and incorporated into the final draft report. The Provincial Auditor and senior Office staff meet with the Deputy Minister or agency head to discuss the final draft report, and the auditee is given an opportunity to finalize the responses. Those responses are included in the report sections selected for this *Annual Report*. The Office is pleased to acknowledge the active co-operation of the staff of audited ministries and agencies throughout this year's process.

Under section 12 of the *Audit Act*, the Provincial Auditor is required to report annually to the Speaker of the Legislative Assembly.

Immediately prior to the tabling of the *Annual Report*, separate and simultaneous lockups are arranged for members of the Assembly and their research staff, representatives of the media, and representatives of audited ministries and agencies. When the lockups conclude, the Provincial Auditor is available to answer the media's questions.

Each year, the Standing Committee on Public Accounts selects sections of the Provincial Auditor's *Annual Report* for review, and calls upon representatives of the audited ministries to attend as witnesses.

## SUMMARY OF RECOMMENDATIONS

The following are summaries of the 19 audit reports on value for money audits contained in Chapter Three of this *Annual Report*. The auditees' responses in Chapter Three indicate that action has already been taken, or is planned, to implement many of our recommendations.

### 3.01 Ministry of Community and Social Services Child Care Activity

Under the Child Care Activity, the Ministry's main responsibilities are to license and regulate child care centres to ensure the health and safety of children, and to provide funding to municipalities, approved corporations and First Nations towards the provision of subsidized care to children of families demonstrating financial and social need. For the 1994/95 fiscal year, estimated expenditures of the Child Care Activity totalled \$460 million to cover over 3,000 licensed child care centres with a capacity of almost 130,000 licensed spaces providing full- or part-day programs.

We assessed the Ministry's procedures for monitoring child care services to determine the extent to which legislative requirements and established Ministry policies and directives were being complied with and whether the cost effectiveness of delivering services was being measured and reported.

A number of our audit observations this year are similar to those made in our 1989 *Annual Report*. While the Ministry indicated that it had taken extensive corrective action in response to that report, our current audit revealed that improvements in its procedures were still needed to ensure that:

- child care centres are licensed in compliance with the *Day Nurseries Act* and Regulation;

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- applicants are properly needs-tested so that only eligible families receive subsidized child care services;
  - the service levels expected of municipalities and approved corporations are clearly specified; and
  - quality of care is measured and reported and corrective action taken where necessary.

### **3.02 Ministry of Community and Social Services Facilities for People with Developmental Disabilities**

Under the authority of the *Developmental Services Act*, the Ministry of Community and Social Services operates nine facilities and funds nine non-profit agencies that provide a range of support and services for approximately 3,000 people with developmental disabilities. The agencies are governed by independent boards of directors comprising community representatives. For the 1994/95 fiscal year, the Ministry spent \$237 million on directly-operated facilities and \$42 million on agency-operated facilities.

We assessed the Ministry's procedures to determine the extent to which legislative requirements and Ministry policies and procedures were complied with, and the extent to which cost effectiveness in delivering services and the achievement of program objectives were measured and reported.

Some of this year's audit observations are similar to observations in our 1990 *Annual Report*. Although the Ministry had taken some corrective action in response to that report, we noted that improvements were needed in the following key areas:

- determining that consistent quality of care is provided throughout the province and ensuring that corrective action is taken where improvements are needed;
- identifying information requirements and modifying management information systems accordingly to provide complete and accurate information for decision-making; and
- ensuring that Ministry policies are being adhered to so that standards of behavioural training and treatment are met, serious occurrences are correctly reported and dealt with, and Personal Needs Allowances are used only for the purposes intended.

### **3.03 Ministry of Consumer and Commercial Relations Business Division**

The Ministry of Consumer and Commercial Relations' Business Division is responsible for promoting a fair and informed marketplace which supports a competitive economy in Ontario. The Division's activities included registering and maintaining public records on businesses, resolving marketplace issues, mediating consumer complaints and enforcing consumer protection legislation, and educating consumers and businesses.

We assessed whether the Ministry had adequate procedures in place to promote a fair and informed marketplace and to measure and report on program effectiveness. We recommended that the Ministry evaluate how effective the Business Division is in meeting its mandate.

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### **3.04 Ministry of Consumer and Commercial Relations Elevating Devices Program**

The Elevating Devices Program of the Ministry of Consumer and Commercial Relations is responsible for minimizing safety risks associated with approximately 38,000 elevating devices in Ontario. All newly installed and significantly altered elevating devices must be inspected before being put in service to ensure that they are constructed and are being operated according to design specifications. Once devices are in operation, the Ministry is required to periodically inspect them to ensure that they are operating safely and are properly maintained by elevating contractors on an ongoing basis.

We assessed whether the Ministry had in place an adequate system of inspections for elevating devices and adequate procedures to measure and report on the effectiveness of the Elevating Devices Program. We recommended that the Ministry:

- implement risk-management processes for the inspection of elevating devices to minimize safety risks associated with the devices;
- reinspect all elevators found to be in violation of safety standards; and
- develop better indicators to measure and report on the Program's effectiveness in ensuring the safety of elevating devices.

### **3.05 Ministry of Economic Development, Trade and Tourism jobsOntario Community Action Program**

The jobsOntario Community Action program was introduced by the government in its 1993 *Budget* with a commitment of \$300 million over three years. The purpose of the program is to assist community economic development through the support of community building activities, financing instruments and capital projects. The objectives of our audit included assessing whether adequate procedures were in place to approve or reject grants based on established criteria, and to determine whether grant amounts were reasonable.

Our audit made a number of recommendations designed to strengthen the management of the program by ensuring that:

- grants are approved and used only for eligible purposes;
- projects meet established needs and that project costs, including contributions in kind, are reasonable;
- applicants have the ability to pay for their share of project costs; and
- funds are not advanced before they are required for the project.

### **3.06 Ministry of Finance Gasoline, Diesel Fuel and Tobacco Taxes**

For the 1994/95 fiscal year, the Ministry of Finance collected approximately \$1.9 billion in gasoline taxes, \$505 million in diesel fuel taxes and \$324 million in tobacco taxes. We assessed whether the Ministry collected these taxes in a cost-effective manner, on a timely basis and in accordance with statutory requirements. To enable the Ministry to better detect the illegal declaration, use and sale of tax-exempt gasoline and diesel fuel products, we made a number of recommendations aimed at strengthening the Ministry's enforcement and inspection procedures.

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Witnesses before the hearings of the Standing Committee on Finance and Economic Affairs on the underground economy in late 1993 testified that millions of cartons of exported cigarettes were being smuggled back into Ontario where they could have been sold for half the price of legally taxed cigarettes. The estimate of tax losses to the Province provided by witnesses and subsequently by the Ministry of Finance was in the hundreds of millions of dollars. To combat this problem, on February 21, 1994, the government significantly reduced tobacco taxes. The amount of cigarettes exported to the United States has dropped dramatically since that time.

### **3.07 Ministry of Finance Retail Sales Tax**

For the 1994/95 fiscal year, the Ministry of Finance collected approximately \$9 billion in retail sales tax. We assessed the adequacy of the Ministry's tax collection procedures. We concluded that the Branch can and should take more vigorous steps to reduce the tax gap and implement additional measures to minimize the loss of taxes through the underground economy. Most importantly, the level of vendor audit coverage has deteriorated to the point where we question whether compliance with the law is being adequately enforced and whether public confidence in the fairness of the tax system is being maintained.

### **3.08 Ministry of Health Land Ambulance Services**

The *Ambulance Act* governs and regulates the licensing and operations of ambulance services in Ontario. Operating under the Act, the objectives of the Ministry of Health's Emergency Services Activity are:

- to reduce death, disability and suffering due to sudden illness or injury; and
- to provide safe and efficient medical transportation for non-emergency patients.

We assessed whether the goals for Land Ambulance Services were clearly defined and whether performance was measured and reported. We also assessed whether the Ministry ensured that resources were managed with due regard for economy and efficiency, and whether monitoring procedures were in place to ensure ambulance services complied with applicable legislation and policies.

While the Ministry has implemented many initiatives to improve the provision of land ambulance services, we concluded that further efforts were required to properly monitor, assess and report on the effectiveness of ambulance operations and services. In light of its objective of reducing death, disability and suffering due to sudden illness or injury, the Ministry requires better information to determine where improvements need to be made to respond to emergencies in a reasonable time with properly trained and equipped personnel.

### **3.09 Ministry of Health Residential Services Activity**

The Residential Services Branch funds and monitors the care of individuals residing in nursing homes and homes for the aged. In fiscal 1994/95, these facilities received approximately \$1.1 billion from the Ministry of Health. We assessed whether goals had been

clearly defined and performance was being measured and reported. We also assessed whether the Ministry had adequate procedures in place to ensure that applicable legislation and policies were being followed, and that resources were being managed with due regard for economy and efficiency. We concluded that:

- the effectiveness in meeting the objectives of long-term care reform needed to be better measured and evaluated so that corrective actions could be taken where necessary;
- because the “levels of care funding” process had still not been fully implemented, there was still a requirement to ensure that funding provided to long-term care facilities is allocated based on need;
- the supply and distribution of beds in the province needed to be addressed to ensure that sufficient beds are provided on the basis of demand; and
- serious complaints needed to be investigated more promptly to minimize risks to residents of long-term care facilities.

### **3.10 Ministry of Health Private and Hospital Laboratories and Specimen Collection Centres**

The Laboratory Services Branch is responsible for approving and issuing licences to laboratories and specimen collection centres and monitoring their operations. Laboratory tests assist the medical community in the diagnosis, prevention and treatment of disease. Specimen collection centres gather specimens and forward them to the laboratories for testing.

Our audit assessed the adequacy of procedures to ensure compliance with legislation and policies pertaining to the licensing and monitoring of laboratories and specimen collection centres. We recommended that the Ministry:

- encourage the Ontario Medical Association to streamline the Laboratory Proficiency Testing Program (LPTP) to make it more efficient in improving laboratory performance;
- report results from the LPTP to the Director of Laboratory and Specimen Collection Centre Licensing in a more timely way so that conditions can be imposed when necessary on the licences of laboratories that have not met accepted standards; and
- correct deficiencies in licensing legislation to bring all specimen collection centres under the same quality assurance provisions.

### **3.11 Management Board Secretariat CORPAY (Corporate Payroll System)**

The government’s centralized corporate payroll system, CORPAY, processes the \$4 billion annual payroll for approximately 85,000 employees of the Ontario Public Service. We assessed whether CORPAY was an efficient and reliable payroll system. We recommended that:

- Management Board assess other payroll processing alternatives, such as “outsourcing”, and weigh these alternatives against the cost of maintaining CORPAY to determine whether payroll processing would be more efficient and cost-effective if “outsourced”; and
- Management Board, in conjunction with the ministries and agencies, rationalize the many human resource information systems currently in use and support specified

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systems for government-wide use. The impact of any outsourcing should also be considered to provide more cost-effective and efficient support for human resource management.

### **3.12 Management Board Secretariat Inventory of Information Technology Assets**

In 1993, Management Board Secretariat paid a consulting firm \$4.225 million primarily to conduct a certified inventory count of the government's information technology assets. In assessing whether good business practices were followed with respect to this project, we found little evidence to suggest that the costs, risks and alternatives were explored in sufficient depth prior to commitment of the funds. While acknowledging that this project was an atypical one, we made several recommendations relating to project justification, acquisition of consultants' services, project management and use of project results.

### **3.13 Ministry of Municipal Affairs and Housing Non-Profit Housing**

The Ministry of Municipal Affairs and Housing is responsible for the delivery of non-profit housing programs. Subsidies paid to non-profit housing providers such as co-operatives and private and municipal non-profit housing corporations to operate completed projects amounted to \$783 million in fiscal 1994/95. As requested by the Standing Committee on Public Accounts, we conducted a follow-up of our 1992 audit of the programs to assess the adequacy of existing controls over the selection, development, construction, operation and cost of housing projects and to assess the Ministry's progress in addressing the concerns raised by our previous audit and by the Committee.

We found that while progress has been made to improve controls over program delivery, several improvements are still required, particularly for the approximately 1,900 completed projects receiving operating subsidies. Our further recommendations included improving the systems and procedures needed to ensure that:

- funded housing providers comply with program policies, meet objectives and are effectively governed, and that the Ministry deals with problem projects swiftly and effectively;
- vacancies in units designated for market-rent tenants are reduced and strategies are developed to minimize future vacancies in projects not yet completed; and
- the Ministry provides the information necessary to foster public accountability, to better explain the costs of non-profit housing programs, and to facilitate analysis of policy and cost-reduction strategies.

### **3.14 Ministry of Municipal Affairs and Housing Municipal Affairs**

One of the Ministry of Municipal Affairs and Housing's significant responsibilities is to administer the legislation that establishes and governs municipalities. There are 815 municipalities in Ontario which spend about \$20 billion annually, 30% of which is funded by various provincial ministries. We assessed the Ministry's systems and procedures to promote strong, fair, effective and accessible governance in municipalities, to monitor the financial condition of municipalities, and to measure and report on its effectiveness. Several concerns led us to recommend that the Ministry:

- 
- work with municipalities and other ministries to more effectively define the respective roles and responsibilities of the Province and municipalities, and provide more flexibility and efficiency in service delivery by focusing more on results and less on process;
  - develop action plans to achieve the many financial, service and accountability benefits of restructuring municipal services and organizations already identified by several studies; and
  - help to strengthen government performance and accountability by encouraging more comprehensive performance reporting by municipalities of the quality and cost of services provided and by improving measurement and reporting of the Ministry's own effectiveness.

### **3.15 Ministry of Natural Resources Aviation, Flood and Fire Management Activity**

This activity primarily provides forest fire management services for the Province, including the development of fire management policies and strategies, fire detection and the basic resources required for the control of forest fires. It also provides aviation services for forest fire management efforts and utility transport and other specialized aviation services to all government ministries.

Our audit objectives included assessing whether reasonable standards and procedures were established for the prevention, detection and suppression of forest fires and for aviation services, and whether operations were carried out with due regard for economy and efficiency.

We recommended that the Ministry enhance its cost effectiveness by:

- assessing its current fire-management capacity and taking the steps necessary to achieve the most cost-effective combination of resources and organizational structures;
- monitoring and analyzing how staff time is used, establishing standards and expectations for each type of activity and comparing actual performance against those standards; and
- determining the most cost-effective number and location of attack bases taking into account its air transport capabilities and potential reliance on auxiliary and municipal firefighting forces.

### **3.16 Ministry of Northern Development and Mines Northern Ontario Heritage Fund**

The purpose of the Northern Ontario Heritage Fund Corporation is to encourage the growth and diversification of the economy of Northern Ontario by providing financial assistance through a variety of programs. The Province is committed to making a contribution of \$360 million to the Corporation in annual instalments of \$30 million. These instalments are to end in the year 2000.

We assessed whether the Corporation had procedures in place to measure and report on the effectiveness of its programs. We also assessed whether key financial and management systems and procedures and practices were in place to ensure that funds were administered in accordance with funding guidelines and policies. We found that the Corporation needed to:

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- improve the measurement of the actual results of funded projects over time, and report periodically on the effectiveness of its funding programs to set priorities for future projects and determine appropriate methods of funding them; and
  - have a more thorough assessment of project proposals, especially for smaller dollar-value projects, and improve the ongoing monitoring of funded projects to ensure compliance with funding requirements.

### **3.17 Ministry of the Solicitor General and Correctional Services Community Services Activity**

The Community Services Activity of the Ministry of the Solicitor General and Correctional Services provides supervision for a daily average of approximately 63,000 offenders who are serving their sentences in the community under a probation order or parole certificate. For fiscal 1994/95, expenditures for the Community Services Activity totalled approximately \$114 million.

We assessed whether the Ministry had adequate procedures in place to ensure that offenders comply with the conditions of probation or parole, manage financial and human resources in a cost-effective manner, and measure and report on the effectiveness of its community programs. We recommended that the Ministry:

- take more appropriate action when maximum risk probationers fail to report as required to minimize the risk of their committing other crimes;
- work more closely with its partners in the justice system to develop solutions for dealing with probationers who repeatedly violate their probation orders and with those who do not pay the required restitution to victims of crime; and
- measure and report on the effectiveness of its community programs in ensuring the protection of society and motivating offenders towards positive personal change.

### **3.18 Ministry of the Solicitor General and Correctional Services The Ontario Board of Parole**

The Ontario Board of Parole is responsible for determining whether offenders sentenced to imprisonment for less than two years may be released from correctional institutions and serve the remainder of their sentences under supervision in the community. Offenders are eligible for parole upon serving one third of their sentences. Without parole, offenders are normally released after serving two thirds of their sentences. For the 1994/95 fiscal year, the Board of Parole's total expenditures amounted to approximately \$4 million. The Board's latest report shows that there were approximately 6,500 parole hearings with parole granted or parole denied decisions, of which 59% resulted in parole being granted.

We assessed whether the Ontario Board of Parole had adequate procedures in place to make appropriate decisions and to report on its effectiveness. We recommended that the Board should:

- obtain sufficient information, institute the use of more objective risk-assessment tools, and provide better training to Board members to improve the quality of its decision-making process and to help determine whether the release of offenders would present an undue risk to society; and
- develop better measures to assess and report on its effectiveness in protecting public safety and facilitating the re-integration of offenders into the community.

### 3.19 Ministry of Transportation Quality and Standards Activity

The Ministry of Transportation develops standards and regulations for the design, construction and maintenance of roads and related structures. Our audit assessed the adequacy of the procedures established by the Ministry for the development of appropriate standards for design, construction and maintenance of a safe, efficient and economical roadway network as well as the adequacy of the Ministry's procedures for ensuring that current standards are being implemented, and for evaluating and reporting on program efficiency and effectiveness.

We recommended that the Ministry improve the cost effectiveness of its road construction and maintenance program by:

- developing improved life-cycle costing procedures and incorporating life-cycle costing analyses into its design and construction decisions;
- ensuring that cost-effective materials and technologies identified through its research efforts are incorporated into the Ministry's standards on a more timely basis; and
- instituting more comprehensive documentation, including checklists, to ensure compliance with all applicable standards for road construction.

## OVERALL COMMENT ON VALUE FOR MONEY AUDITS

In our value for money audits, we identified many instances where improvements can and should be made in the economy, efficiency and operational effectiveness of program or service delivery so that better value can be obtained for the taxpayer's dollar.

As well, in many of our value for money audits we found insufficient measuring and reporting of the effectiveness of government programs by the ministries. It is essential that steps be taken to ensure improvement in this area so that legislators and the public can be fully assured that performance is measured, reported and evaluated, and that corrective action is taken when necessary.

## COMMITMENT TO FOLLOW UP

In 1993, I committed to instituting a more formal process of following up on issues raised and recommendations made in our Annual Reports, and to report on their status two years after initial publication. Accordingly, in Chapter Four of this *Annual Report*, a detailed account is provided of the results of our follow-up work on 1993 recommendations.

For the most part, action has been taken to address the recommendations contained in our 1993 *Annual Report*. However, progress in a number of programs continues to be slow. Similar to my overall comment on our 1995 value for money audits, which appears in the preceding section, we found in our follow-up work on 1993 *Annual Report* recommendations insufficient attention by the audited ministries and agencies to the measurement and reporting on the effectiveness of government programs.

As well, I note that no progress has been made in developing a strategy to deal with the unfunded liability of the Workers' Compensation Board, which at December 31, 1994 amounted to \$11.402 billion.



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## CHAPTER TWO



# Towards a Workable Accountability Framework

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# Towards a Workable Legislated Accountability Framework

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## BACKGROUND AND CURRENT STATUS

For the past two years, in accordance with a June 1993 motion of the Standing Committee on Public Accounts, I have pursued and advocated the establishment of a workable legislated accountability framework. The reasons for recommending a legislated accountability framework are threefold:

- a framework that is legislated becomes a tool of the Legislative Assembly and ministers to help ensure cost-effective program and service delivery;
- obtaining value for money should be a legislated everyday management responsibility, rather than an indirect requirement monitored through periodic audit examinations under the *Audit Act*. Ministry management need such a framework to hold them accountable for the economy, efficiency and operational effectiveness of both their actions and the transfer payments made by their ministries.
- the central agencies need more effective tools to hold ministries accountable for government-wide responsibilities.

Similar to comments contained in my 1994 *Annual Report*, progress towards a legislated accountability framework is not evident. Although staff of Management Board Secretariat and the Ministry of Finance continue to be interested in improved accountability, their preference is to pursue non-legislated ways to strengthen the accountability framework.

## MEASURING AND REPORTING ON PERFORMANCE

In many of our value for money audits reported in both the 1994 and the current *Annual Report*, we found and have commented on insufficient measuring and reporting by the ministries of the effectiveness of government programs. It is essential that steps be taken towards improvement in this area so that legislators and the public can be fully assured that performance is measured, reported and evaluated, and that corrective action is taken when necessary.

To make the right decisions, legislators must be provided with reliable information so they can assess for each government program whether that program is effective (achieving the intended results) as it is being delivered now, whether it needs to be modified to become

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effective, or whether it should be discontinued because it is not and cannot be reasonably made effective.

In other words, legislators need to be given the tools to determine which of the government's "businesses" should continue as is, be modified or be discontinued. It is this results-driven focus that should be the driving force behind reductions in spending, deficits and debts.

As mentioned, the central agencies prefer to pursue non-legislated ways to strengthen the accountability framework. Although there may be piecemeal successes in such an approach, it will not necessarily strengthen accountability to the legislators. The existing accountability framework needs significant improvement before it will effectively ensure that public funds are spent in full compliance with legislative objectives, and with due regard for economy, efficiency and effectiveness.

For example, Management Board of Cabinet has issued sound directives and guidelines on a number of subjects, including one dealing with Transfer Payment Accountability which applies to all transfer payments as identified in the annual Estimates. However, other than rare internal audits, neither Management Board Secretariat nor the Ministry of Finance have put effective mechanisms in place to monitor compliance with these directives and guidelines or to ensure corrective action is taken as required regarding their application.

As noted in the 1994 *Annual Report*, a better approach would be to establish an effective function to monitor the application of the directives. Management Board Secretariat in collaboration with the Ministry of Finance should ensure that ministries are taking whatever corrective action is necessary to ensure compliance with Management Board directives and to encourage the use of the guidelines.

## GOVERNANCE AND ACCOUNTABILITY

There is growing realization by all governments that they can no longer accumulate growing deficits and debt to provide services. The financial community is increasing its pressure on governments to reduce their deficits. Much of their focus has therefore been, and continues to be, on doing more with less in trying to address the concerns of a public that, experiencing a decline in real income, finds increased taxes unacceptable, but nevertheless demands more public services.

About 51% (\$28 billion) of government funds are spent by separately governed organizations. In fact, the Legislative Assembly of Ontario has, directly or indirectly through ministries, established over 7,000 funded governing bodies for many different types of organizations. These range from high-level policy instruments to organizations that provide services to Ontarians at the local level. With the increasing importance being given to community-based services, their number is growing.

These governing bodies are currently under great pressure. Not only must they demonstrate their effectiveness in achieving desired results, they are also often challenged to maintain or increase service levels despite cuts in funding. In addition, the general public has tended to become sceptical about the quality of governance in general and needs to be persuaded and reassured that good governance is indeed being practised.

Good governance, then, is crucial. It is about making the right decisions and getting the right results. It is the means through which our public institutions can successfully achieve

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their purposes and earn the confidence of those they serve and those who fund them. Good governance both justifies and reinforces public trust.

These governing bodies would fit into an accountability framework in the following manner:

- The Legislature or the ministry sets objectives and assigns the responsibility for meeting them to a board of directors.
- Both parties agree on the specific results to be achieved, as well as how these results will be measured. This step requires a performance contract or memorandum of understanding.
- The Legislature or ministry gives the board of directors the authority necessary to carry out its responsibilities and to achieve the specific results; in other words, it empowers the board to do its job.
- The board of directors then decides on the most appropriate strategies for achieving the agreed upon objectives, as well as on the specific results and performance to be achieved by the organization. The chief executive officer (CEO) is informed of these aims and is empowered by the board to achieve them.
- The CEO reports periodically on results achieved and demonstrates that responsibilities have been carried out appropriately. This process is termed "accounting for results."
- After receiving assurance through an objective and independent evaluation, the board of directors reacts to and acts upon the results that the CEO has reported.
- Finally, coming full circle, the Legislature or ministry receives, in keeping with the reporting regime it has established, reports from the board of directors about the organization's performance.

Once all seven of these elements are functioning properly, accountability will have been achieved and the performance of the ministries and organizations receiving public funds can be evaluated and corrective action taken.

In this regard, part of the mandate of the Ontario Financial Review Commission encompasses an assessment of the reporting practices and reporting of activities of selected Crown agencies.

## THE CONTROLLERSHIP FUNCTION

As covered in the 1994 *Annual Report*, I continue to advocate that accountability and the controllership function be anchored in legislation. This is necessary not only for the effective management of the government's finances, but also to help ensure that all funds are spent for the intended legislated purposes and that value for money is obtained.

In my opinion, there is a need to improve financial reporting to the Legislature of planned and actual financial performance. Specifically, appropriate information to compare actual and planned performance is crucial to an effective accountability framework.

## IMPROVING THE AUDIT REGIME

In my 1994 *Annual Report*, I referred to the following motion passed in May 1994 by the Standing Committee on Public Accounts:

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*...that the Standing Committee on Public Accounts recommends to the Minister of Finance that public hearings be held to consider amendments to the Audit Act, including increasing the Provincial Auditor's scope of value for money audits to include payments to transfer [payment] recipients, and that this be done without delay.*

Specifically discussed were amendments to the *Audit Act* which would broaden the definition of discretionary inspection audits of organizations such as school boards, hospitals and universities to permit my Office to perform full-scope value for money audits. At present, the *Audit Act* defines an inspection audit as "an examination of accounting records" which, in some instances, has had scope-limiting financial connotations. This proposed amendment would enhance accountability to the Legislature, thus complementing, but not replacing, the establishment of a legislated accountability framework.

However, as covered in Chapter 7 of this *Annual Report*, due to the dissolution of the Legislature on April 28, 1995, the proposed amendment is now in a state of abeyance. We will again be pursuing the subject of amendments to the *Audit Act* with the new Standing Committee on Public Accounts during the First Session of the new Parliament.

Regarding internal audit, I pointed out in the 1994 *Annual Report* that the number of actual staff employed in internal audit functions had decreased by 23% from 363 staff in 1991/92 to 279 in 1993/94, while ministry expenditures had increased by 5.5% over the same period. The number of internal audit staff continues to decrease, with a total of approximately 257 staff at the end of the 1994/95 fiscal year.

As mentioned last year, these reductions are of concern, since internal audit is an important component of financial and management control in the ministries it serves. Additionally, it can make significant contributions to achieving value for money. To the extent possible, this Office relies on internal audit work in our audit examinations.

It is essential that any reviews or studies of revised ways of delivering internal audit services (one of which is in progress at the time of writing this Chapter) result in strengthened internal audit functions within the ministries.

## DEVELOPMENTS IN OTHER JURISDICTIONS

In my 1993 *Annual Report*, I summarized progress that was occurring in other jurisdictions (the United Kingdom, the United States and the province of Prince Edward Island) in pursuing various ways to improve accountability to the central government, the legislature and the public being served.

More recent developments in other jurisdictions that are worthy of consideration are summarized as follows:

- In Alberta, the *Government Accountability Act* became effective in May 1995. This Act calls for the annual tabling and making public by the Provincial Treasurer of consolidated fiscal and business plans for the government covering the current and at least the two subsequent fiscal years. The contents of the business plan are performance-oriented. Periodic public reports comparing actual to targeted results are also required. Additional legislated requirements are for consolidated audited annual reports, statements of responsibility and annual business plans for each ministry.

- In his Budget Address of March 30, 1995 the Treasurer of Prince Edward Island announced that work would begin immediately on the drafting of legislation to hold departments, agencies, regional authorities and school districts accountable for meeting agreed upon objectives and require annual reporting on program effectiveness and achievement of results.
- In June 1995 in British Columbia a report was issued entitled *Enhancing Accountability for Performance in the British Columbia Public Sector*. This report represented the joint efforts of the Deputy Ministers' Council and the Auditor General of British Columbia, reflecting their mutual desire to bring about comprehensive accountability for performance together with continuing improvements in performance management in the public sector.

This report recommended that accountability information be conveyed between successive levels of governing: from the individual to the program level; from the program level to the corporate level; from the corporate level to the government level; and from the government level to the Legislative Assembly. The report also recommended that accountability be comprehensive in scope, applying to ministries, crown corporations and funded agencies (such as regional health boards and school boards) as well as government as a whole.

I am encouraged by these developments which can serve to provide useful background information and guidance in developing a workable legislated accountability framework in Ontario.

## CONCLUSION

It is essential that improvements be made by the government in performance management and assessing the effectiveness of program and service delivery, especially where such program and service delivery is funded by transfer payments to separately governed organizations. Such transfer payments account for about 51% (around \$28 billion) of all provincial government spending.

An integral part of these improvements would be to provide legislators with the tools to determine which of its "businesses" the government should continue as is, modify or discontinue. It is this performance and results focus that should be the driving force behind reducing spending, deficits and debts.

As covered in my annual reports of the last two years, I firmly believe that a workable legislated accountability framework is necessary for the effective management of government, its finances and spending, and its resources. Such a framework would provide better means for the Legislature to assess whether all funds have been and are being spent for the intended legislated purpose in a cost-effective manner. As well, it would also result in better information being provided to the Legislature for decision making.

# Legislative Estimates Review Process

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Along with all other governments in Canada, the Ontario Government is faced with enormous financial pressures. To cope with these pressures, tough decisions will have to be made about which government programs and services should be preserved as they are, which programs and services need to be modified to become more economical, efficient and effective in meeting legislative objectives, and which ones should be discontinued.

To survive, these programs and services will have to compete for shrinking resources. Those that are most accountable and have processes in place to demonstrate their effectiveness will have a much better chance of survival.

A key process for assisting the government and legislature in making these tough decisions is an effective legislative estimates review process.

The government requires the approval of the Legislature for the funds it intends to spend for each fiscal year. As a first step in requesting such approval, the government tables, near the start of each fiscal year, an annual *Budget* outlining in general terms its proposed plans for the year. Shortly thereafter, the government tables detailed *Expenditure Estimates* which outline each ministry's spending proposals on a program by program basis.

Since the late 1970s, the process whereby the Legislature reviews the *Estimates* has been the subject of much debate. In 1989, in response to concerns expressed over the years about the effectiveness of the estimates review process, several changes were made including the establishment of a new committee called the Standing Committee on the Estimates. This Committee was given the mandate to conduct a detailed review of the *Estimates* for selected ministries each year and report back to the Legislature.

The Committee presents one report to the Legislature with respect to those ministry Estimates that were reviewed and approved. The Estimates of those ministries not selected for review are deemed to be passed by the Committee and are reported as such to the Legislature. Orders of Concurrence for each of the Estimates reported on by the Committee are then debated in the Legislature for a maximum of six hours and then voted on. If a majority of the Members vote to reduce or reject an amount in a ministry's *Estimates* this could be considered an expression of non-confidence which could precipitate a formal non-confidence motion, resulting in the dissolution of the Legislature and an election.

The Legislature then provides the government with legal spending authority by approving the *Supply Act* which stipulates the amounts which can be spent according to the ministry programs as set out in the *Estimates*. Where the government does not hold the majority of seats, the Members essentially have de facto control over the government's proposed spending plans. Where the government does hold a majority of seats, the role of the oppo-

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sition Members is more along the lines of helping to ensure accountability by carefully scrutinizing the government's proposed expenditures in a public forum. In either scenario, an effective review of the ministries' proposed spending plans is critical if the Legislature is to hold the government accountable for its management of the public purse.

## OBJECTIVE AND SCOPE

The primary focus of our review was to determine whether the 1989 revisions to the estimates review process have resulted in the anticipated improvement in the Legislature's ability to scrutinize and evaluate the ministries' proposed spending plans.

Our review included interviews with nine Members of Provincial Parliament (MPPs), three from each political party, who have served on the Standing Committee on the Estimates over the past few years. We also conducted research into how the legislative estimates review process works and what initiatives were taking place in some of the larger Canadian jurisdictions as well as in Australia, New Zealand and the United Kingdom.

We did not examine the financial and administrative reviews carried out by Treasury Board Division as we were informed by the Ministry of Finance that most of the supporting documentation involved is prepared for Cabinet or its committees and, accordingly, could not be provided to us.

## OVERALL OBSERVATIONS

While the introduction of the new Standing Committee on the Estimates has resulted in some improvement in the estimates review process, the consensus of MPPs we interviewed was that it was still not very effective in ensuring that the ministries' proposed spending plans receive appropriate scrutiny. As one MPP stated in responding to our question "How effective is the estimates review process in holding the government accountable for its spending decisions?":

*We do not serve the public very well in assessing whether the ministry is planning to spend or has spent the money wisely by the end of the day. This disturbs me. In theory, we are supposed to be looking after the finances of the Province. However, by the end of the day we are no more enlightened.*

Based on our work and discussions with the MPPs, the following problems need to be addressed if the estimates review process is to be made more effective:

- the *Estimates* are being reviewed after much of the requested funding has already been spent, and MPPs believe they have no real input into proposed spending decisions;
- although ministry briefing materials provided in support of the *Estimates* have improved since 1989, additional information focusing on program results and service delivery levels needs to be provided; and
- MPPs from all three parties expressed concerns that "party politics" play too great a role in the review process.

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We believe the estimates review process can and should be improved to assist ministers and the Government in their decision making. The improvements need to be made in two interrelated elements of the review process:

- the legislative review should be timed in such a way that the results of the MPPs deliberations can influence the government's decision making; and
- those ministries selected for review should provide future-oriented business plans, better information on performance actually achieved and expected, and how legislative objectives will be met.

These proposed improvements would, in essence, direct Committee deliberations toward providing the respective ministers with specific pre-budget input on such issues as the relative effectiveness of ministry programs, concerns over program results given the costs incurred, and possible service delivery modifications or alternatives. While the final decisions would still rest with the ministers and Cabinet, Committee members would have a very real opportunity to influence government spending proposals. We believe this would encourage a more objective, collegial and thorough review of proposed government spending.

## DETAILED OBSERVATIONS

### REFORM OF THE ESTIMATES REVIEW PROCESS: 1987 TO 1990

In 1987 we asked a number of MPPs for their opinions on the effectiveness of the estimates review process. Based on their feedback, we reported in our *1987 Annual Report* that the estimates review process was "maligned and ineffective." We were not alone in our criticism of the process as the Standing Committee on Public Accounts (PAC) and the Procedural Affairs Committee had previously expressed similar concerns. We pointed out the urgent need for reform of the estimates review process.

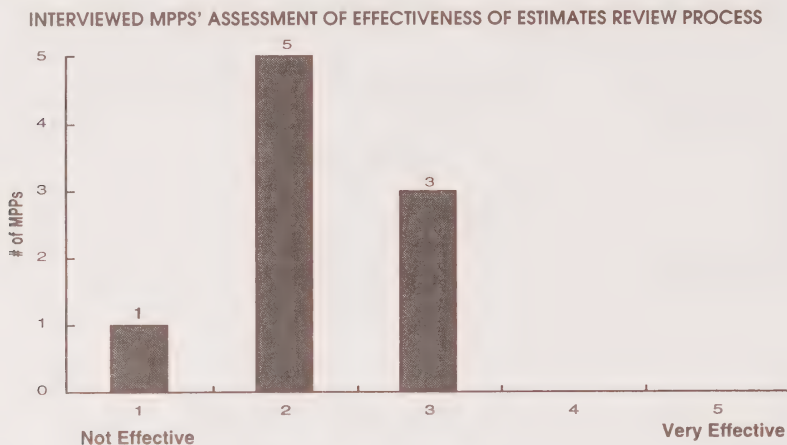
In 1988 the PAC reviewed this section of our Report and issued a *Special Report on the Estimates Process*. In 1989, the Standing Orders relating to the estimates review process were amended by the Legislature to establish the Standing Committee on the Estimates. The following chart provides a synopsis of the more significant recommendations made in our *1987 Annual Report* and in the PAC's *1988 Special Report*. The chart also illustrates which recommendations were implemented when the Standing Orders were changed.

SYNOPSIS OF OPA AND PAC RECOMMENDATIONS AND STANDING ORDER CHANGES		
1987 OPA Recommendations	1988 PAC Recommendations	1989 Standing Order Changes
A new specialist estimates committee be established as had previously been recommended by the Procedural Affairs Committee in 1985.	Concurrence: Yes  The new committee be called the Standing Committee on the Estimates.  The committee chair be a member of the Opposition also on the PAC. The committee include two other PAC members, one from each of the other parties.	Implemented: Partially  New committee called the Standing Committee on the Estimates established.  Committee chair shall be a member of a recognized party in opposition.
The new committee review a selected number of Estimates.	Concurrence: Yes  The Committee review six sets of ministry Estimates per year, with each party picking two.	Implemented: Yes  The new committee is to select not fewer than 6 and not more than 12 Estimates for review. All Estimates not selected for consideration are deemed to be passed by the Committee.
Estimates work to be co-ordinated with the PAC and our Office.  The Committee be staffed with non-partisan research staff.	Concurrence: Partially  The new committee be supported by research staff as deemed necessary, and their work be co-ordinated with that of PAC's research staff.	Not specifically addressed although a research officer from the Legislative Research Service has subsequently been assigned to the Committee.
	The form and content of Estimates information be reviewed by the new committee as a high priority.	Estimates briefing material is to include "information on growth rates, interim expenditures for the previous fiscal year, and an explanation of the programmes and funding for the particular item."
	The Committee be given the power to recommend reallocations of funding within each vote.	Not addressed.

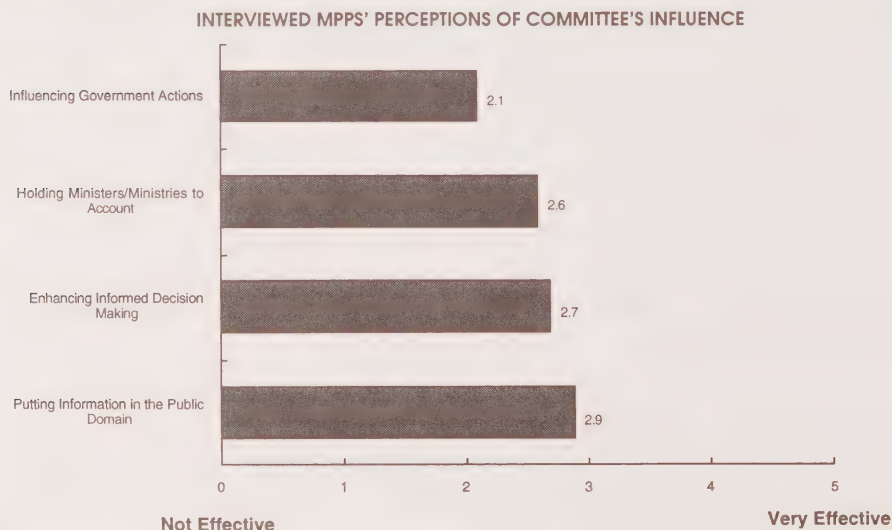
## MPPS' PERCEPTIONS OF THE EFFECTIVENESS OF THE PRESENT PROCESS

The majority of MPPs interviewed acknowledged that financial scrutiny of the *Estimates* should be the primary focus of their review. However, they generally conceded that this was not the case and that policy and constituency matters were the prime topics of discussion. While a few of the MPPs were highly critical of this fact, most made it clear that they believed the discussion of policy issues and constituency matters was appropriate, provided it was done in the proper context.

Notwithstanding, in responding to our question on their perception of how effective the estimates review process was in holding the government accountable for its spending decisions, most MPPs readily acknowledged that the process was not working as it should. The following chart summarizes the ratings provided by the MPPs on their assessment of the effectiveness of the present review process.



Our research on practices in other jurisdictions revealed that the Select Committee on Procedures of the British House of Commons had reviewed the effectiveness of the work of British parliamentary committees. As part of this review, each committee had been asked to evaluate its own effectiveness against four criteria. We asked the MPPs we interviewed for their assessment of the effectiveness of Ontario's Standing Committee on the Estimates against the same four criteria. A summary of their responses is provided below.



Accordingly, while a number of concerns and frustrations about the current process were raised by the MPPs we interviewed, as the above chart and our discussions with the MPPs indicate, most believe that the current review process does foster some accountability.

## TIMING OF THE ESTIMATES REVIEW PROCESS

The timing of the estimates review process continues to be a significant problem. Ministry *Estimates* are reviewed well into the fiscal year to which they relate and, consequently, much of the debate takes place after a substantial portion of the funds have already been spent. The majority of the MPPs we interviewed expressed serious reservations about how meaningful the review process can be given this fact.

The following comments indicate the nature of the concerns expressed by the MPPs on this particular issue:

*Because of timing, estimates review is a useless exercise for influencing government expenditure decisions.*

*The fact that the Estimates are considered two thirds of the way through the year makes the process much less meaningful.*

*They shouldn't even be called "the Estimates" as they deal with last year's Budget.*

One reason for the lack of timely review of the *Estimates* is due to the timing surrounding the tabling of the *Budget*. In recent years the *Budget* and related *Expenditure Estimates* have been tabled at least four weeks into the fiscal year (April 1 to the following March 31) to which they relate. The review of *Estimates* must be completed by the third Thursday in November and Legislative approval is typically forthcoming shortly thereafter.

Based on information we requested from several of the larger provinces and the federal government for the 1994/95 fiscal year, we noted these jurisdictions were all more timely than Ontario in the tabling of their *Budgets* and legislative approval of the related *Expenditure Estimates*.

ESTIMATES APPROVAL DATES FOR ONTARIO AND OTHER JURISDICTIONS			
Jurisdiction	Date Budget Tabled	Date Related Estimates Tabled	Date Legislature Approved Estimates
Federal Government	February 22, 1994	February 22, 1994	June 8, 1994
<b>Ontario</b>	<b>May 5, 1994</b>	<b>May 16, 1994</b>	<b>December 8, 1994</b>
Alberta	February 24, 1994	February 24, 1994	April 18, 1994
British Columbia	March 22, 1994	March 22, 1994	June 30, 1994
Manitoba	April 20, 1994	April 20, 1994	July 5, 1994
Saskatchewan	February 18, 1994	February 18, 1994	June 2, 1994

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The 1989 amendments to the Standing Orders established a maximum of 90 hours for review of ministry *Estimates* by the Standing Committee on the Estimates. However, we noted the actual hours spent on estimates review hearings were only 41 hours in 1994 relating to the 1994/95 *Estimates* and only 42 hours in 1993 relating to the 1993/94 *Estimates*.

In discussing with MPPs and the Clerk of the Committee why the full 90 hours were not used, three primary reasons were given:

- the Committee normally only meets when the House is sitting and only when the routine proceedings in the House have been completed which normally occurs after 3:30 pm. In addition, meetings after 3:30 pm are often cut short when MPPs are called back to the House for votes;
- the 1993/94 main *Estimates* were not tabled until early June while the 1994/95 main *Estimates* were not tabled until early May. This does not leave much time for the Committee to meet before the House recesses for the summer in mid-to-late June; and
- for committees to meet in the summer when the House is not sitting, a motion of the House is required. The Estimates Committee was able to meet for 20 hours over the summer in 1994, but did not receive approval to meet in the summer of 1993.

This resulted in the time available for review of some ministries being severely curtailed, while other ministries originally selected for review could not be reviewed at all before the Committee had to report back to the House in mid-November. With the competing needs of the MPPs' other legislative commitments, time constraints will always be a problem. However, we question whether substantial improvement in the effectiveness of the estimates review process can be made unless sufficient time is spent at an early enough stage to enable the Committee to have input on spending decisions.

## INFORMATION FOR THE DECISION MAKERS

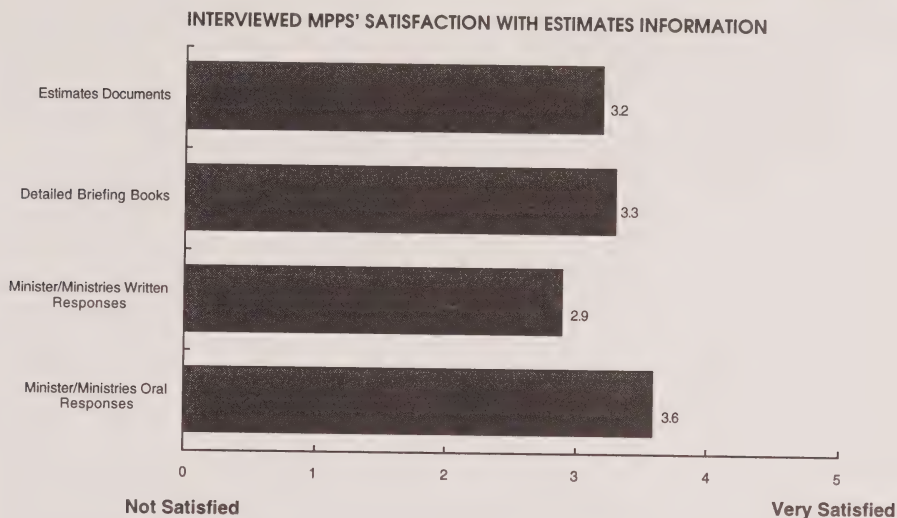
One of the key sources of information available to MPPs in reviewing ministry *Estimates* are the estimates briefing books which each ministry prepares to provide additional details on its proposed expenditures. In our 1987 review we noted that the estimates briefing material provided by the ministries was inadequate to meet the needs of Committee members. This issue was also addressed by the PAC in their *Special Report on the Estimates Process* issued in 1988.

When the Standing Orders were revised in 1989, an attempt was made to bring some measure of consistency to the briefing materials by stating that they "shall include such information as growth rates, interim expenditures for the previous fiscal year, and an explanation of the programmes and funding by particular item."

In 1990, the Management Board Secretariat introduced revisions to their *General Guidelines for the Estimates Briefing Book* to promote consistency and disclosure of the required information. The 1993/94 edition of the *Guidelines* states: "Since the *General Guidelines* were redesigned in March of 1990 and satisfactorily received, annual reviews have kept changes to a minimum."

Other sources of information to assist MPPs in reviewing the *Estimates* include the actual *Expenditure Estimates* tabled in the Legislature and written as well as oral responses to MPP questions during the Committee hearings. We asked the nine MPPs we interviewed how

satisfied they were with the information received. A summary of their responses is provided in the following chart.



While there were a few exceptions, most MPPs were generally satisfied with the estimates briefing books and responses to their questions. Notwithstanding, we presented the MPPs with a list of other possible financial and operational indicators that organizations such as the Canadian Comprehensive Auditing Foundation have recommended for public sector organizations to use in reporting on the effectiveness of their operations.

While not all of the indicators received widespread support, there was a general consensus that several of them would be welcomed for the additional information they would provide. These related to:

- historical and projected staffing levels on a program by program basis;
- better explanations of significant variances between years;
- customer/taxpayer satisfaction with program service levels; and
- program results information including a comparison of results achieved against those previously forecast.

## PERFORMANCE INFORMATION

The support of the MPPs for more information on program results was of particular interest to us. In both our 1993 and 1994 *Annual Reports* as well as in this current *Annual Report*, we have expressed concern that ministries were not adequately measuring and reporting on the effectiveness of their programs. Other jurisdictions have also recognized the need for an improved reporting of program results and performance. For instance, the following table illustrates some of the performance reporting requirements currently in place in other jurisdictions.

PERFORMANCE-RELATED INFORMATION REQUIRED IN OTHER JURISDICTIONS	
Jurisdiction	Information Required to be Provided
Canada	The federal 1994 <i>Guide to the Preparation of Part III of the Estimates</i> requires results to be reported including: (a) operational outputs; (b) program outputs or client benefits; and (c) program outcomes (impacts and effects). On February 15, 1995, the President of the Treasury Board tabled the <i>Expenditure Management System of the Government of Canada</i> and noted that "Performance information is needed for informed reviews of existing programs and decisions on the reallocation of resources. Information available to ministers and Parliamentarians will be improved to provide for better informed decisions and to enhance accountability."
Alberta	In February 1995, the government stated that "In June 1995, government will release the first comprehensive report card on the performance of government. The objective is to use results to improve programs and services for Albertans. In future, budget decisions will be more closely tied to results achieved."
Manitoba	The <i>Estimates Supplement</i> document provides supplementary operational information on expected results which are defined as specific statements of desired outputs.
New Zealand	The <i>Public Finance Act 1989</i> requires departments to report annually to Parliament on their performances in delivering outputs and utilizing and managing their resources against the projected performances as stated in the <i>Estimates</i> .  New Zealand's <i>Main Estimates</i> must include performance measures covering quantity, quality and timeliness information.
United Kingdom	Departmental estimates briefing materials include information on program objectives and expected results.
United States	Although not under a British parliamentary system, the United States' <i>Government Performance and Results Act</i> of 1992 establishes a system to set goals for program performance and to measure results.

We believe these jurisdictions are on the right track. While appropriate and reliable financial information is essential, in itself, it is rarely sufficient to enable legislators, public sector administrators and taxpayers to assess the effectiveness of government programs. Specifically, we believe that estimates briefing material should include anticipated results for each program where it would be reasonable and appropriate to provide such information, and that these results should be clearly linked to the associated program costs.

Subsequent objective reporting of actual results against these expectations is equally important. Only then will decision makers and the public at large be able to truly evaluate

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how well government programs are functioning and whether expected program results are being delivered cost effectively.

However, having the right information is often not enough. MPPs also need sufficient time to analyse this information to judge whether ministry programs are doing what they are intended to do in a cost-effective manner. Most MPPs we talked to were very forthright in stating that, with all their other legislative and constituency responsibilities, they have only minimal time to evaluate the estimates briefing material provided to them. In most cases, any detailed analysis is left to the ministries' opposition party critics who typically substitute for Committee members from their party when a ministry they cover is being reviewed.

To help alleviate the problem of time constraints faced by MPPs, we commented in our 1987 review on the need for adequate non-partisan research staff to assist Committee members in taking an in-depth look at government spending plans. A researcher from the Legislative Research Service is permanently assigned to assist the Committee and attends all meetings; however, most Members tend to rely on the minister and ministry staff to respond to their particular questions during the hearings. As a result, only a few of the MPPs we talked to had made specific research requests of the Legislative Research Service.

Most MPPs acknowledged that research assistance would help to highlight possible areas of interest during the hearings. Several MPPs also indicated that they would appreciate having contacts at the ministries they could phone to obtain additional information on the ministries' estimates briefing materials. Others mentioned that they would appreciate "number crunching" assistance.

In discussing the MPP's comments with the Legislative Research Service, we were informed that the Service's role on this Committee is very much in the formative stage, evolving and being defined gradually in response to the Committee's instructions and research requirements. We were advised by the Legislative Research Service that its input has tended to address such matters as identifying follow-up requests made by the Committee members of the various ministries that have appeared.

We discussed the role played by the Legislative Research Service in assisting the Public Accounts Committee with several of the MPPs who had a particular interest in this issue. Prior to Public Accounts Committee hearings on a particular section of our *Annual Report*, representatives of our Office and the Legislative Research Service jointly provide the Committee members with an in camera briefing session. The objective is to give MPPs an overview and an update on the key issues and the opportunity to ask questions in order to facilitate their subsequent discussions with ministry officials. Such an approach might warrant consideration by the Standing Committee on the Estimates.

## MORE FUTURE-ORIENTED INFORMATION

Some of the other Canadian and international jurisdictions we reviewed were making strides in providing their parliamentarians with more future-oriented estimates information to give them the opportunity to offer their views on spending proposals before their respective governments finalize their *Budgets* and related *Expenditure Estimates*. The following table illustrates some of the practices that are being followed or are in the process of being introduced in other jurisdictions.

FUTURE- ORIENTED INFORMATION: OTHER JURISDICTIONS		
Jurisdiction	Nature of Document	Future-Oriented Information
Canada	Standing Orders of the Canadian House of Commons - February 1994	Empowers the standing committees reviewing the Estimates to report on departmental expenditure trends and priorities relating to future fiscal years.
Canada	Estimates Briefing Materials	By mid-April departments are required to provide an Outlook document detailing their program priorities and expenditures for the next few years to assist parliamentary committees in reviewing future expenditure trends and priorities and to set the context for their overall review of the <i>Estimates</i> .
Alberta	Estimates Briefing Materials	Business plan produced in addition to the <i>Estimates</i> . The business plan contains the next three year's estimated expenditures with specific program objectives, actions and expected results.
Australia	Estimates Briefing Materials	The presentation of forward estimates has been in use in Australia for approximately ten years. The forward <i>Estimates of Government Outlays</i> covers the current budget year and two forward years.
New Zealand	Estimates Briefing Materials	A standard estimates questionnaire is completed by each department which addresses the key issues facing the department over the next few years.
United Kingdom	Estimates Briefing Materials	Departmental reports detail the government's expenditure plans for the current budget year and the next two years.

One suggestion that had particular appeal to us was contained in a section of the 1993 Canadian federal *Report of the Liaison Committee on Committee Effectiveness* entitled "A Better Way of Handling Estimates." The federal Liaison Committee is composed of the chairpersons of all House of Commons' standing committees. In commenting on problems concerning the federal estimates review process, the report stated:

*The Committee is convinced that a goodly number of members would take an interest in the estimates and devote time to their examination if they felt their views would carry some weight. Approval of expenditure is, after all, a fundamental duty of elected representatives. The Committee believes, however, that the situation will not change much, except possibly in a minority Parliament, unless governments decide that they are ready to accept advice from Members on their estimates.*

To address the perceived problem, the Liaison Committee offered the following recommendation:

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*An approach which the Committee favours would have Ministers and senior officials discuss in committee in the early autumn proposed expenditures for the following year so as to make it possible for committees to offer views as to spending priorities that the government could take into account in preparing its final estimates.*

The Committee went on to add that:

*To be effective, committees would have to have specialized staffs and both the Members and committee staffs would have to have the full co-operation of officials, in order to have the necessary financial information to make sound proposals. Its merit is that, rather than rubber stamping what the government had already decided, Members would have an opportunity to offer their views on expenditures before all decisions on the estimates had been taken.*

## 2.02

Certain changes aimed at providing additional future-oriented information for the estimates review process have been implemented by the federal government as described in the previous table. However, the Liaison Committee's recommendation that proposed expenditures be reviewed by the standing committees in the early fall was not deemed practicable because of estimates preparation and tabling deadlines which would not easily allow for the introduction of another level of consultation, discussion and input during the fall.

We specifically asked the nine MPPs we interviewed for their reaction to the more future-oriented approach recommended by the Liaison Committee. While all nine MPPs agreed there was a need to have a fresh look at the process, only five MPPs fully supported the Committee's approach; one MPP offered qualified support; and the remaining three, while supporting the recommendation in principle, questioned whether it was workable given the current political environment.

The rationale of those MPPs who supported a more future-oriented review of *Estimated Expenditures* was generally along the lines of the following statements made by two of the MPPs we interviewed:

*The Estimates Committee is the watchdog of government spending. At times some programs are working very well, while others are just surviving. The Estimates Committee should help the minister to identify programs to save and program problem areas that warrant cuts.*

*The review of the Estimates should be done in advance of the fiscal year to which they apply. Currently, the review of the Estimates is a complete whitewash process.*

The three MPPs who believed the Liaison Committee's approach was not workable were of the opinion that since the future expenditure amounts would only be estimated amounts and would not have been finalized by Cabinet, Committee members might not take the proposed amounts too seriously. However, as the following comment by one of the MPPs who questioned the workability of the approach indicates, the approach might still have some merit.

*Without Cabinet approval of the figures, there would not be much meaning to the numbers we are reviewing. However, if MPPs and the government were to treat*

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*this process as a “think tank,” the proposed process could be useful if the opposition MPPs want it to be constructive. The government may get some good ideas from the process.*

A much more widespread concern regarding the practicality of implementing the Liaison Committee's suggestions or any reform of the estimates review process in general was raised by almost every MPP we talked to. This concern was the issue of “party politics.” MPPs from all three parties expressed considerable frustration with how the whole estimates review process was affected by party politics. The following observations are indicative of the comments made to us on this issue by MPPs from all three parties:

*I like the [Liaison Committee's] recommendation. But it would require a “mindset change.” There is a lot of talent on all sides of the House which this approach could tap into. Also, the approach might take the partisanship out of the current process and this would be extremely positive.*

*The confrontational nature of the place would need to change for it [the Liaison Committee approach] to work.*

*...would need a more collegial relationship between the minister and MPPs if we're going to solve problems.*

Most of the MPPs we talked to indicated that eliminating the confrontational political aspect of the estimates review process would go a long way towards making the process more effective.

## ACTIONS TO CONSIDER

We believe that improvements can and should be made in the present legislative estimates review process. Based on our research into other jurisdictions, we believe there is one change which warrants consideration, perhaps on a trial basis, as a possible means to address the timing, lack of performance and future-oriented information, and “party politics” issues. This change would involve the Standing Committee redirecting its attention from focusing on expenditures already committed to reviewing ministry “business plans” for the forthcoming year. Ministries appearing before the Committee would be requested to prepare future-oriented business plans outlining their strategic priorities, initial estimates of program expenditures, the key issues facing the ministry and expected program results.

The report resulting from such a future-oriented review could be used by the Standing Committee on Finance and Economic Affairs in its pre-Budget consultations. Also, through the report, better information on proposed program expenditures would be provided to the Legislative Assembly for its debates on the *Budget* and the *Estimates*.

We believe it will be even more critical over the next few years that the people of Ontario are well served by an effective legislative estimates review process given the difficult decisions that will have to be made to reduce the deficit. As one of the MPPs we interviewed put it:

*Decision-making in the government is more difficult today than ever. Funds are lacking which are necessary to sustain what was put in place 30 years ago. There-*

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*fore, we are operating in an environment of lowering costs in the future. Tough decisions will have to be made in this environment. As MPPs we will have to make decisions on what is to be preserved and what must be cut out.*

We urge that discussion of this important matter be considered by the Standing Committees on the Estimates, Finance and Economic Affairs, and Public Accounts.

## 2.02

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## CHAPTER THREE



# Reports on Value for Money Audits

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## MINISTRY OF COMMUNITY AND SOCIAL SERVICES

# Child Care Activity

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The Ministry of Community and Social Services' Child Care Activity is operated under the authority of the *Day Nurseries Act* and Regulation. Under the Activity, the Ministry's main responsibilities are to:

- license and regulate child care centres to ensure the health and safety of children;
- provide funding to municipalities, approved corporations and First Nations towards the provision of subsidized care to children of families demonstrating financial and social need; and
- provide wage subsidies to licensed, non-profit child care centres to improve the salary and benefit levels of permanent workers.

At the time of our audit, there were over 3,000 licensed child care centres with a capacity of almost 130,000 licensed spaces, providing full- or part-day programs to children, generally up to the age of 10 years, including children with developmental and physical disabilities.

For the 1994/95 fiscal year, Child Care Activity estimated expenditures were \$460 million consisting of fee subsidies of \$305 million, wage subsidies of \$112 million and miscellaneous subsidies of \$43 million. The amount of \$460 million represents an 80% increase in expenditures since our last audit in 1989, when expenditures totalled \$255 million, and when there were approximately 2,500 licensed child care centres with 90,000 licensed spaces.

Child Care Activity is a non-mandatory program which relies on the co-operation and financial contributions of municipalities, approved corporations and First Nations to deliver child care services throughout the province.

In 1992, the Ministry released a public consultation paper entitled "Setting the Stage" which was widely distributed across the province. This document provided a focus for discussion and suggestions on four areas of child care reform: quality, affordability, accessibility and sound management.

This public consultation process was completed in late 1992 and the Ministry proceeded towards implementing the new initiatives. However, in April 1994, the Ministry decided to scale down its efforts and concentrate on only those reforms which could be achieved within available funding. These reforms will include developing consistent rules for subsidy eligibility, improving access to fee subsidies, consolidating existing funding streams and introducing a well known quality assessment tool to measure the quality of child care.

## OBJECTIVES AND SCOPE

Our audit objectives were to assess the Ministry's procedures for monitoring child care services to determine the extent to which:

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- legislative requirements and established Ministry policies and directives were being complied with; and
  - the cost effectiveness of delivering services was being measured and reported.

Our audit included visits to two Ministry area offices and evaluating responses to written questionnaires from four others. As well, we visited two large municipalities to gather information about how they were administering the Child Care Activity. Our audit focused on the Ministry's monitoring of child care centres, municipalities and approved corporations and did not cover services administered by First Nations.

We reviewed the relevant audit plans and reports of the Ministry's Comprehensive Audit and Investigations Branch. We were unable to reduce the scope of our work in conducting our audit due to the different areas covered by the Branch's work.

## OVERALL AUDIT OBSERVATIONS

A number of the audit observations that follow are similar to those we made in our 1989 *Annual Report*. The Ministry indicated that it had taken extensive corrective action in response to that report. However, our current audit revealed that improvements are still needed in the Ministry's monitoring procedures to determine the extent to which legislative requirements and established Ministry policies and directives are being complied with and services are being delivered in a cost-effective manner.

The Ministry needs to make further improvements in its procedures to ensure that:

- child care centres are properly licensed;
- applicants are properly needs tested to ensure only eligible families receive subsidized child care services;
- wage subsidy payments are spent for the purposes intended; and
- an effective accountability framework is established to ensure service levels expected of municipalities and approved corporations are clearly specified.

## DETAILED AUDIT OBSERVATIONS

### MINISTRY MONITORING OF COMPLIANCE WITH LEGISLATION AND MINISTRY POLICIES AND DIRECTIVES

#### LICENSING AND ENFORCEMENT

The *Day Nurseries Act* requires that each child care centre be licensed by the Ministry before the centre can operate. Prior to the issuance of a licence, a formal licensing inspection is conducted, generally by an area office program advisor. An inspection entails the completion of a Ministry-developed licensing checklist of requirements stipulated by the Regulation, including a review of the premises, the services provided, and the centre's policies and records.

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A regular licence is issued when a child care centre meets all requirements. The Ministry can impose conditions on a regular licence as deemed necessary. A provisional licence may be issued when a centre does not meet all the requirements and requires time to bring itself into compliance. All licences, whether regular or provisional, must be posted in their respective child care centres where parents can easily locate and read them. Licences are issued for up to one year.

The Act defines a day nursery (child care centre) as “premises that receives more than five children who are not of common parentage, primarily for the purpose of providing temporary care, or guidance, or both temporary care and guidance, for a continuous period not exceeding 24 hours” where the children are under 10 years of age or are developmentally disabled and under 18 years of age.

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However, the Ministry has stated that when a parent is on the same “premises” as the child and is available in emergency situations, the facility that the child is in is not considered to be a child care centre and, therefore, is not subject to licensing. However, the Ministry has not defined “premises”; interpretations have ranged from “the same room” to “the same building.” In “the same building” could be a baby-sitting service in a shopping mall.

We could not ascertain the total number of these centres not subject to licensing as this information is not collected by the Ministry.

Also, child care centres usually offer full-day or half-day services. However, some centres provide late evening or overnight care.

Of the six area offices we contacted, four licensed these types of child care centres. These offices indicated that there were no specific Ministry guidelines issued for the licensing of centres with extended-hours child care. The area offices must decide on a case-by-case basis how to handle these particular cases since many of the Regulation’s requirements may not apply during extended hours. For instance, requirements for staff qualifications and outdoor play which are relevant to centres caring for children during the daytime may not be relevant to centres caring for sleeping children.

Of the four area offices that monitor extended-hours child care centres, only one stated that it conducted licensing inspections during the extended hours of operation. All four area offices indicated that they needed more guidance from the Ministry with respect to the licensing of such centres.

#### **Recommendation:**

**To ensure that the intended purpose of licensing is met, the Ministry should develop clearly defined licensing standards and terms, including those for extended-hours child care centres, for use by program advisors during their licensing visits.**

#### **Ministry Response:**

***The Ministry will issue a directive clarifying requirements.***

***The Ministry will provide further direction to assist program advisors in licensing centres with extended hours.***

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## MINISTRY'S REFUSAL TO ISSUE NEW LICENCES

The *Day Nurseries Act* allows the Ministry to refuse to issue a new licence when an applicant or any employee, director or officer of an applicant is "not competent" to establish, operate or maintain a child care centre "in a responsible manner" in accordance with the legislation. The Act also allows the Ministry to refuse to issue a new licence if the past conduct of the applicant or any employee, director or officer of the applicant suggests that the centre will not be established, operated or maintained in accordance with the legislation.

However, the Ministry has not defined "not competent" or "in a responsible manner" as used in the Act, and it conducts no systematic screening of applicants or their employees, directors or officers. The Ministry does not keep central records pertaining to the conduct of former operators or centre employees, directors and officers to help Ministry field staff to assess past conduct should these individuals open other child care centres.

In the past two years, the Ministry has refused to issue a licence to only two applicants based on this section of the Act. Of the six area offices we contacted, only one office screened applicants that had previously operated child care centres by checking with the relevant area offices.

A child care audit conducted by the United States General Accounting Office reported that child care experts consider screening important since it can detect those attracted to child care because it is an easy business to start but who may be unsuitable or poorly qualified to care for children. These experts believed that preventing such providers from starting a child care centre in the first place is more cost-efficient than facing enforcement problems later.

As of March 1, 1995, the Ministry introduced a new policy requiring criminal reference checks on applicants for new licences to operate child care centres.

This policy also states that an area office's decision to refuse to issue a licence must be based on the grounds set out in the legislation. However, the legislation requires interpretation, and the Ministry has not provided the necessary guidance as to when a criminal reference check provides such grounds.

### **Recommendation:**

**To ensure that new child care licences are issued appropriately:**

- the Ministry should define both "not competent" and "in a responsible manner" as used in the *Day Nurseries Act*, and make its assessments based on those definitions; and
- the Ministry should develop guidelines stipulating the circumstances under which a criminal reference check provides grounds for refusing a licence.

### **Ministry Response:**

***The Ministry will provide additional guidance for directors to assist them in determining when an applicant is not competent to establish a child care centre in a responsible manner.***

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*The criminal reference check policy was introduced in March 1995. The Ministry will incorporate the audit recommendation to develop guidelines as part of the implementation review.*

## ELIGIBILITY

The Ministry allocates funds to municipalities, approved corporations and First Nations for the provision of child care services. The Ministry's policy is to subsidize only the child care costs of children whose parents are "in need," developmentally or physically disabled children and children in First Nations-operated child care services. A "person in need" is defined in the Regulation as:

- a person eligible for allowance under the *Family Benefits Act*, or
- a person eligible for general assistance under the *General Welfare Assistance Act*, or
- a person who by reason of financial hardship, inability to obtain regular employment, lack of a principal family provider, illness, disability or old age, has available daily income, as determined in accordance with the Ministry's needs test, which is less than the per diem cost of providing child care services or private home child care, as the case may be, to dependent children.

However, subsidized child care is dependent upon the availability of funding in the community. Therefore, even if an applicant is deemed eligible for subsidized child care, the service may not be available. In that case, the applicant's name is placed on a waiting list.

## APPLICATION OF THE NEEDS TEST

A family is deemed to be in financial need if its liquid assets are less than the maximum allowed and its monthly allowable expenses exceed its monthly net income. The maximum allowed for liquid assets increases from \$5,000 according to family size. For example, for a one-parent family with two children, the maximum allowable is \$5,500 whereas, for a two-parent family with two children, the maximum allowable is \$6,000. Applicants are expected to provide documentation such as pay slips and bank statements to prove their financial status with respect to liquid assets, living expenses and income.

Generally, municipalities conduct needs tests and are reimbursed for 80% of the administrative costs by the Ministry. In conducting these tests, municipalities use the Ministry's *Guidelines for the Determination of Available Income* which allow municipal discretion to reflect local conditions. A municipality can define and set upper limits for certain expenditure items, further delineate the definition of a liquid asset and identify additional exclusions to income.

As reported in our 1989 audit, the exercise of this discretion gives rise to some anomalous situations. We reviewed the eligibility policies of six municipalities as well as the results of a 1993 *Survey of Eligibility Policies* conducted by the Ontario Municipal Social Services Association. We noted that eligibility policies that would not be strongly affected by local conditions varied considerably. For example, in determining the maximum allowable liquid assets and the available monthly income:

- Registered Retirement Savings Plans were not always considered liquid assets;

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- the types of allowable expenses varied. For example, some municipalities allowed deductions for school supplies, course fees, diapers and cable television whereas others did not;
  - the upper limit allowed for some expenses varied. For example, upper limit deduction for debts ranged from \$100 to \$450 per month and for laundry expenses ranged from \$0 to \$100 per month;
  - the percentage of an applicant's net earnings allowed as an exemption ranged from 0% to 25%; some municipalities also imposed a dollar limit while others did not; and
  - municipal policies regarding self-employed applicants' income varied. For example, some municipalities assessed applicants as earning their actual income while others assessed applicants as earning the greater of actual income or minimum wage.

The Ministry believes that income testing, which is used in all other provinces, would result in greater provincial consistency and a more streamlined application process. We were informed in April 1995 that the Ministry will be forming a working group, with child care stakeholders and staff from the municipal sector and approved corporations, to develop a report on the income test as a replacement for the needs test, for Ministry consideration.

#### **Recommendation:**

**The Ministry should ensure consistency and equity in the application of needs tests across the province.**

#### **Ministry Response:**

*The Ministry agrees and is pursuing a better way of assessing financial eligibility for fee subsidy.*

*The Ministry will explore approaches that would result in greater consistency/equity in fee subsidy eligibility levels across the province and would be generally acceptable to funding partners and stakeholders. Improvements will need to be achieved within the existing legislative framework, existing funding resources and federal cost-sharing parameters with minimal service disruption.*

#### **MINISTRY REVIEW OF COMPLETED NEEDS TESTS**

In our 1989 audit we found that needs test files were not systematically checked for accuracy and completeness by the Ministry. In that report we recommended that the Ministry conduct periodic reviews of needs tests completed by municipalities to ensure that the criteria and the intent of needs testing were being observed.

The Ministry agreed and, since 1990, area offices have been required to conduct reviews of needs tests for a minimum of 20% of the municipalities and approved corporations under their jurisdiction each year. However, we found that:

- four of the six area offices contacted had not conducted a review of needs test files during the 1993/94 fiscal year; and

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- as of December 1994, one area office we visited had not completed a review of needs test files at any municipalities or approved corporations since the 1991/92 fiscal year.

Each area office decides how many files to review and who will conduct the reviews. The Ministry circulated, for comments, sample review procedures developed by one of the area offices. However, the Ministry has not issued a comprehensive directive instructing field staff on how to conduct file reviews, document review findings, report issues, and so on.

For example, neither of the area offices we visited selected municipalities or needs test files for review based on risk assessment. However, conducting an effective review requires an analysis of the risk associated with both the municipality and the types of files reviewed. For example, factors to consider when assessing risk for municipalities include the amount funded to the municipality, the training and qualifications of the municipality's needs test assessors and the results of needs test audits conducted by a municipality's internal or external auditors. In selecting needs test files to review, more attention should be given to files that are at a higher risk of having an error such as those that were difficult to complete or that were completed during the peak season.

Furthermore, conducting an effective review requires the ability to analyze financial information such as tax returns and financial statements. Recognizing that financial knowledge is required to conduct an effective review, one of the two area offices we visited was considering transferring this responsibility to its finance unit.

Staff at the six area offices we contacted stated that they needed more Ministry guidance to conduct reviews effectively.

At the two area offices we visited, we compared the results of six needs test reviews conducted by Ministry staff at municipalities between 1991/92 and 1993/94. We noted that three of the six municipalities had not been informed in writing of the results even though deficiencies had been identified for two of them.

### **Recommendation:**

**To ensure that only eligible families receive subsidized child care, the Ministry should conduct its needs test file reviews based on risk assessments and in a timely and effective manner. Where deficiencies are identified, the Ministry should ensure that appropriate corrective action is taken.**

### **Ministry Response:**

***The Ministry agrees that it is important to ensure that only eligible families receive subsidized child care and that Ministry needs test reviews should be conducted based on a risk analysis.***

***The Ministry will develop a more comprehensive directive on review procedures of the municipal application of fee subsidy eligibility requirements as recommended in the Provincial Auditor's report once decisions regarding a new way to assess fee subsidy eligibility have been taken.***

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## WAGE SUBSIDIES

Wage subsidies are primarily intended to improve the salary and benefit levels of permanent employees working in child care centres. These subsidies are available to licensed, non-profit centres. Some for-profit child care centres in existence prior to December 7, 1987 are also receiving a small portion of wage subsidy funding.

The Ministry enters into wage subsidy agreements with individual child care centres on an annual basis. Subsidies are calculated using several Ministry-established funding formulas. For the 1994/95 fiscal year, an estimated \$112 million in wage subsidies was paid to approximately 2,000 child care centre operators.

At year-end, child care centres are required to submit a wage subsidy utilization statement to the appropriate Ministry area office. The statement must include the number of positions being subsidized, total salaries and benefits paid and any variance between the total wage subsidy received and the total wage subsidy used. Any wage subsidy surpluses are deducted from future Ministry payments to the centre. The Ministry does not reimburse wage subsidy deficits.

The wage subsidy agreements enable the Ministry to review and/or audit, at any time, the centres involved if the Ministry deems it necessary. However, the Ministry only investigates when there is a complaint about wage subsidies, but undertakes no regular, systematic reviews of wage subsidy utilization statements.

In our previous audit in 1989, we indicated that the Ministry was not verifying information related to a similar grant, the Direct Operating Grant, now a component of wage subsidy. That situation was unchanged at the time of this audit. Thus, the Ministry cannot be assured that these funds have been spent for the purposes intended.

### Recommendation:

**To ensure that funds have been spent for the purposes intended, the Ministry should institute procedures to verify, on a test basis, the information provided by child care centre operators in their wage subsidy utilization statements.**

### Ministry Response:

*Financial reporting procedures are incorporated in the Wage Subsidy Guidelines, requiring verification that the funds are being spent for the purposes intended by a signing officer of the day care's board of directors.*

*In addition, a random sample review on a test basis will be conducted by the Ministry in 1995/96 to verify the integrity of this reporting process. Based on the results of that review, if necessary, the Ministry will take further action.*

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# MINISTRY MONITORING OF COST EFFECTIVENESS OF SERVICE DELIVERY

## ACCOUNTABILITY

In 1988 Management Board of Cabinet issued a Directive requiring the establishment of an effective framework to hold transfer payment recipients accountable for their management of public funds. An underlying principle of the Directive is that the expenditure of public funds should be managed prudently to meet program objectives and to ensure that related services are delivered effectively. Four steps in the accountability process were identified: setting expectations; contracting; reporting; and taking corrective action.

Of the six area offices we contacted, we found that only three included service level expectations in their budget approval letters to municipalities and approved corporations. If these expectations are not stipulated, the Ministry has no way of determining whether the services paid for have been delivered cost-effectively.

Also, at the two area offices visited, we found no documented evidence of comparative analysis of actual to budgeted service levels. Such analysis would require service providers to explain any material variances, and the Ministry to evaluate and document their explanations and require corrective action to be taken where necessary. The four area offices surveyed indicated that they did not document comparative analysis of the actual to budgeted service levels. Without such analysis the Ministry cannot be assured that its funds have been used prudently.

The Ministry has developed a new service contract package which consolidates all Ministry-funded services delivered by a service provider into one contract. This service contract includes service delivery expectations and was to be used for the 1994/95 fiscal year. However, at the time of our audit, no service contracts for the 1994/95 fiscal year had been completed for the six area offices we contacted.

### Recommendation:

To improve accountability, the Ministry should ensure that:

- service levels expected of municipalities and approved corporations are clearly specified; and
- significant variances between actual service levels and budgeted levels are followed up and appropriate corrective action taken where necessary.

### Ministry Response:

*All child care programs will be approved via the Ministry's service contract in 1995/96. Through this process expected service levels will be clearly specified.*

*Significant variances between actual service levels and budgeted levels will be identified in the year-to-date reporting process which will be implemented during 1995/96. Appropriate corrective action will be taken where necessary.*

# Facilities for People with Developmental Disabilities

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Under the authority of the *Developmental Services Act*, the Ministry of Community and Social Services operates nine facilities and funds nine non-profit agencies that provide a range of supports and services for approximately 3,000 people with developmental disabilities. The agencies are governed by independent boards of directors consisting of community representatives.

According to the Ministry's Estimates Briefing Book, the Ministry has two stated objectives for the care of people with developmental disabilities residing in facilities:

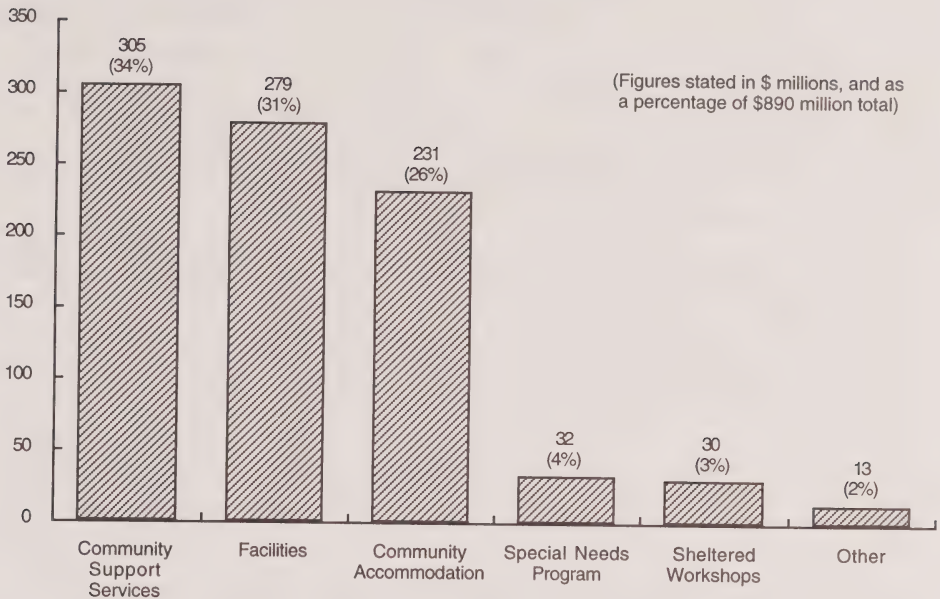
- to enhance and maintain the quality of life of facility residents by providing a full range of residential, highly specialized treatment, and training programs and services; and
- to de-emphasize the institutional approach and emphasize the normalization principle in the care of people with developmental disabilities by reducing the number of residents living in institutions through the provision of programming to prepare clients for community living.

Some of the specific functions provided by the Ministry and the non-profit agencies include:

- assessment and diagnostic services;
- crisis intervention;
- residential care and training programs;
- nursing and medical care and treatment programs;
- behaviour modification programs; and
- employment training programs.

For the 1994/95 fiscal year, the Ministry's funding for all of its developmental services totalled approximately \$890 million, of which \$237 million was for directly operated facilities and \$42 million was for agency-operated facilities.

### Expenditures for Developmental Services



Source: Ministry of Community and Social Services

The facilities' actual volume indicators for the last five fiscal years are as follows:

	1990/91	1991/92	1992/93	1993/94	1994/95
Funding (\$ millions)	\$360	\$376	\$347	\$324	\$279
No. of Residents	4,340	4,059	3,788	3,200	3,005
Funding per Resident	\$83,000	\$93,000	\$92,000	\$101,000	\$93,000
No. of Facilities	20	20	20	18	18

Source: Ministry of Community and Social Services

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## OBJECTIVES AND SCOPE

Our audit objectives were to assess the Ministry's procedures for managing its facilities for people with developmental disabilities and for monitoring the facilities operated by agencies to determine the extent to which:

- cost effectiveness in delivering services and the achievement of program objectives were measured and reported; and
- legislative requirements and Ministry policies and procedures were complied with.

Our audit included discussions with Ministry officials and visits to two Ministry-operated facilities as well as two area offices responsible for monitoring the operations of four of the nine non-profit agencies funded by the Ministry. During 1994/95:

- the two Ministry-operated facilities provided accommodation and support services for about 1,300 residents and accounted for \$104 million, or 44% of the \$237 million spent by the Ministry to operate its nine facilities; and
- the four non-profit agencies provided accommodation and support services for approximately 240 residents and accounted for \$22 million, or 52% of the \$42 million in grants provided to the nine non-profit agencies.

We reviewed the relevant audit plans and reports of the Ministry's Comprehensive Audit and Investigations Branch. We were unable to reduce the scope of our work in conducting our audit due to the different areas covered by the Branch's work.

## OVERALL AUDIT OBSERVATIONS

Some of the audit observations that follow are similar to observations in our 1990 *Annual Report*. Although the Ministry has taken some corrective action in response to that report, a number of concerns remain. We noted deficiencies in its service delivery and the achievement of program objectives and in compliance with Ministry policies and procedures. Improvements are needed in the following key areas:

- determining that the quality of care provided is adequate and ensuring that corrective action is taken where improvements are needed;
- establishing equity in funding and resource allocation;
- identifying information requirements and modifying management data processing systems accordingly to provide complete and accurate information for decision making; and
- ensuring that Ministry policies are adhered to so that:
  - standards of behavioural training and treatment are met;
  - serious occurrences are correctly reported and dealt with; and
  - Personal Needs Allowances are used only for the purposes intended.

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# DETAILED AUDIT OBSERVATIONS

## MEASURING AND REPORTING COST AND PROGRAM EFFECTIVENESS

In May 1987, the Ministry outlined its long-term plans in a policy document called *Challenges and Opportunities: Community Living for People with Developmental Handicaps*. In the document, the Ministry indicated that it expects to have a comprehensive community service system in place to provide support to all developmentally disabled people in their home communities and to phase out institutional placement by the year 2012.

The first phase of this long-term plan was a seven-year *Multi-Year Plan* ending in March 1994 by which time the Ministry was to close three directly operated facilities with about 450 residents, and to transfer another 550 residents from the remaining facilities to community based residences. The two Ministry-operated facilities we visited had kept up with their established targets for resident reductions and we also noted that the Ministry, as a whole, had exceeded the targets for reductions set under its *Multi-Year Plan*. With respect to closures, the Ministry had closed two of the three facilities, with the third now planned for closure in 1996. We understand that the Ministry is also planning to close one other facility in 1996.

Although overall targets have been met at the two facilities we visited, we noted that there were many residents deemed ready for placement without current plans in place to indicate how they were to be placed into the community. In 1994, the two facilities had identified over 400 additional residents ready to be moved into the community. At the close of our audit in February 1995, the Ministry had not developed a new plan to replace the one which ended on March 31, 1994.

The Ministry is currently working on a new *Developmental Services Framework* which, when finalized, will "set out the broad parameters within which policy, programs, and services will be designed, implemented, evaluated, and refined." The three major initiatives, started in 1991, which are being used to form the basis for the framework are:

- an accountability project which will improve accountability both for Ministry-operated and agency-operated facilities;
- a Quality of Life Project, to be completed by 1998, which will evaluate the impact of the Ministry-funded programs on the day-to-day lives of people with developmental disabilities; and
- a "levels of support study" through which the Ministry intends to ensure a more consistent and reliable assessment of the type and amount of support which an individual may require.

Once these initiatives are finalized, the Ministry expects to have proper accountability mechanisms in place, to be able to measure the effectiveness of its programs, to match the amount of support required by residents and to assess the funding requirements.

We noted that on March 29, 1995, the Ministry released a draft paper entitled *Developmental Services Framework* to the public for consultation. The consultation process is expected to be completed by May 31, 1995 and a final paper released by the fall of 1995.

We will follow up on the Ministry's efforts at an appropriate time.

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## AGENCY ACCOUNTABILITY

The need to account for the manner in which public funds are spent by transfer payment agencies is outlined in a 1988 Management Board of Cabinet Directive. The Directive specifically requires each Ministry to establish an accountability framework with four elements: setting expectations, contracting for services, monitoring performance and taking corrective action.

The Ministry indicated that accountability is currently achieved through the legal agreements and the Ministry's working relationship with the agency-operated facilities. Each agreement has schedules which indicate the facility's program description, staffing requirement and annual budget. Also, reports are required annually respecting the services being provided by the facility.

We noted that the legal agreements were unclear in stating the Ministry's short-term expectations of each facility for the care of residents. For example, expectations such as standards of care, safety procedures, staff training and competitive purchasing were not included in the agreements. Also, service requirements were very general and the results to be achieved were not stated.

The Ministry has recognized the need to strengthen the accountability relationships with the agency-operated facilities for some time. We noted that the Ministry plans to address its core expectations relating to governance, program management and resource management as part of its initiatives in finalizing and implementing the new *Developmental Services Framework*.

Completion of an effective accountability framework should help the Ministry ensure that public funds are managed prudently by agencies to meet planned objectives and provide effective program delivery.

We will follow up on the Ministry's efforts at an appropriate time.

## MONITORING AGENCY SERVICE DELIVERY

In any transfer payment relationship, a Ministry needs to ensure that it receives services for its clients as agreed to in contracts or legal agreements. As such, a Ministry needs to monitor the performance of agencies in carrying out the provisions of the contracts or legal agreements to determine the extent to which they are meeting the Ministry's objectives.

In the case of the Ministry of Community and Social Services, such monitoring is carried out by program supervisors at the Ministry's 13 area offices. While there is general recognition within the Ministry that monitoring should take place, there is little overall direction on how it should be carried out. The monitoring carried out by program supervisors is often informal and the area offices are generally left to develop processes that they believe to be appropriate.

One monitoring mechanism that the Ministry uses to ensure that people with developmental disabilities residing in facilities are receiving proper care is the licensing requirement of those facilities that house children under 18 years old. This inspection and licensing process is carried out in compliance with the *Child and Family Services Act*, and affects the monitoring of care provided to about 80 children currently in the agency-operated facilities which have a predominantly adult population currently totalling 520 residents. Care for these residents is provided under the authority of the *Developmental Services Act* which

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does not have any licensing requirements. For the majority of the residents, therefore, there is little evidence of adequate monitoring by the Ministry of the care provided by agency-operated facilities.

Section 34(2) of the *Developmental Services Act* allows the Ministry to “visit and inspect any facility” and “interview residents, examine books, records and other documents relating to residents” to determine the care given to residents. However, we noted that there was no ongoing documented inspection process of agency-operated facilities to cover the adult population.

We made similar comments in our previous audit of agency-operated facilities in 1990. At that time, the Ministry indicated that a peer review process would be established to review the quality of care. This was done by way of Health and Safety Audits which covered 1991 operations. These audits were a one-time effort and reviewed daily living, environment, health, safety, and staffing at the facilities. The Ministry has not established an ongoing review process to aid it in monitoring the quality of care at agency-operated facilities.

### **Recommendations:**

**To provide assurance that the quality of care is adequate at the agency-operated facilities, the Ministry should perform regular inspections under the *Developmental Services Act* for the adult population residing in the facilities.**

**The Ministry should establish an ongoing review mechanism similar to the one conducted under the Ministry's 1991 Health and Safety Audits.**

### **Ministry Response:**

*The Ministry is developing governance policy to ensure clarity and consistency in accountability relationships and in the Ministry's expectations of the boards of agencies. The Ministry recognizes the autonomy of transfer payment agencies (including agency-operated facilities) but also recognizes the importance of ensuring that the boards of those agencies are held directly accountable for contracted services.*

*The 1991 Health and Safety Audits were intended to provide the Ministry with a system-wide assessment of health and safety practices in the agency-operated facilities. The Developmental Services Accountability Framework both continues and supersedes this process. The Accountability Framework does focus on client benefits achieved through the use of provincial funds and identifies the provincial benchmarks against which to assess the effectiveness of services funded by the Province.*

*The Ministry thinks that the contracting mechanisms arising out of the Accountability Initiative will be an effective tool to assist boards of agency-operated facilities to monitor quality of care.*

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## QUALITY OF CARE

The Ministry is responsible for ensuring that all clients in agency-operated facilities receive the same quality of care and that the care is consistent throughout the province. The Ministry does not have standards of care against which to evaluate the accountability of the agency board of directors and the performance of facilities in meeting this responsibility.

As noted earlier, in 1991 the Ministry conducted Health and Safety Audits of all agency-operated facilities. Due to the lack of standards, the Ministry's Provincial Steering Committee developed Statements of Good Practice as a guide for the audits. These statements included preferred practices and indicators in the areas of daily living, environment, health, safety and staffing. However, the audits were a one-time review of facilities and the Statements of Good Practice were not adopted by the Ministry as the desired standards to be followed for the ongoing monitoring of agency performance and to ensure that an adequate level of care was provided to residents.

The Ministry-operated facilities were not subjected to Health and Safety Audits, nor were the Statements of Good Practice applied to these facilities.

### Recommendations:

**The Ministry should improve its procedures to ensure that all persons with developmental disabilities residing in Ministry- and agency-operated facilities receive the same quality of care throughout the province.**

**The Ministry should monitor the agencies and its directly operated facilities to measure their performance in meeting the Ministry's objectives.**

### Ministry Response:

*In 1991 the Ministry developed an Accountability Framework with the intent of bringing system-wide consistency and coherence to the understanding and the application of accountability of agencies funded by this Ministry. The Ministry is identifying broad client outcomes and ways to measure how clients benefit from services provided in each of its program sectors. The contracting mechanisms arising out of the Accountability Framework are being test piloted in three sites across the province. The pilots will be evaluated following completion and will guide broader implementation.*

## FUNDING

Over the years, the Ministry has funded all the facilities based on the previous year's budget adjusted for an annual percentage cost-of-living increase or decrease. For some time, the Ministry has faced challenges relating to the allocation of resources in a way that reflects the identified needs of people with developmental disabilities living in facilities and the community. Therefore, in 1991 the Ministry established a "levels of support study" to develop a standardized means by which resident needs could be identified and the related costs determined. This was to be achieved through the Staffing Resource As-

assessment Model, a tool providing quantitative data reflecting what staff do for individuals based on need and providing comprehensive information about staffing allocations.

In April 1993, the project team submitted a draft report to the Ministry with the results of the study. However, no further action has been taken by the Ministry and facilities continue to be funded on the basis of historical budgets, rather than on an assessment of resident needs and priorities.

### MINISTRY-OPERATED FACILITIES

In 1990 and 1994, the comparative number of facilities, staffing levels, residents and operating costs were as follows:

	March 31, 1990	March 31, 1994	Increase (Decrease)
No. of Facilities	11	9	(2)
Total Staffing	5,650	4,445	(1,205)
No. of Residents	3,554	2,591	(963)
Operating Costs	\$260 million	\$272 million	\$12 million

Excluding the research facility, the Ministry's facilities had the following staffing costs per resident as at March 31, 1994:

Facility #	Salaries and Benefits (\$ millions)	No. of Residents	Average Staffing Cost Per Resident (\$)
1	50	728	69,000
2	51	612	83,000
3	13	140	93,000
4	39	500	78,000
5	10	96	104,000
6	28	165	170,000
7	19	228	83,000
8	7	50	140,000
Total	217	2,519	86,000

Although there has been a decline in resident population and staffing levels due mainly to the closure of two facilities, the total operating costs have increased since 1990. Also, the average staffing cost per resident has risen from \$60,000 (reported in our 1990 audit) to \$86,000 in 1994. In agency-operated facilities the average staffing cost per resident increased from \$57,000 in 1989/90 to \$88,000 in 1993/94.

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There is still no correlation between the level of resident need and staffing costs. For example, facilities #6 and #8 which have a higher functioning resident population have the highest staffing costs per resident. On the other hand facility #4, where approximately 85% of the residents are severely and profoundly developmentally disabled, has one of the lowest staffing costs per resident. These differences may be justified; however, the Ministry had no documented analysis to explain the reasons for the differences.

The Ministry started to address the issue of allocating available resources based on identified needs of facility residents, but little work has been done since April 1993.

### **AGENCY-OPERATED FACILITIES**

Within the current funding mechanism, the Ministry's program supervisors are responsible for monitoring the agency-operated facilities' performance. Subsequent to the facility's year-end, audited financial statements and Annual Program Expenditure Reconciliations (APERs) are submitted to the Ministry. These documents are used to ensure that funds have been appropriately spent and properly recorded.

We reviewed the funding arrangements, financial statements and APERs submitted by the four facilities coming within the jurisdiction of the two area offices we visited. We noted the following deficiencies:

- facility funding was not based on an assessment of the residents' needs and priorities;
- the APER for one facility did not identify all of the recoverable interest income generated from the Ministry's funding. We reviewed the balance sheet for the facility and noted a loan of over \$900,000 which the facility had made from its operating fund to the facility's non-operating fund. This loan represented approximately 20% of the facility's total annual funding. The interest revenue reported on the APER was approximately \$9,000. In our review, along with one conducted by the area office subsequently, it was determined that an additional \$19,000 of interest revenue should have been reported as recoverable by the Ministry. The Ministry has taken steps to recover this amount; and
- surpluses identified in the APERs process are not always recovered on a timely basis. One facility had surpluses of approximately \$240,000 relating to the 1991/92, 1992/93 and 1993/94 fiscal years. However, these were not recovered until December 1994.

Funding based on resident needs and priorities and proper reconciliations are essential for proper planning and for the Ministry to evaluate the financial performance and improve the cost effectiveness of agency-operated facilities.

### **Recommendations:**

**The Ministry should ensure that its resource allocation process is equitable, efficient and effective and promotes cost effectiveness.**

**The Ministry should ensure that its funding and reconciliation processes promote cost effectiveness and provide timely monitoring and evaluation of agency-operated facilities for people with developmental disabilities.**

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**Ministry Response:**

*The Ministry agrees with this recommendation. The Ministry concurs with the Provincial Auditor that there are a number of factors influencing per diem costs including economy of scale. The Ministry will continue to monitor per diems and the factors leading to variance.*

*Resource allocations consider client need, physical plant requirements and a variety of other factors. Since all facilities are not identical in client population or need, or in the type of physical plant, there will be differences in per diem cost. Per diem increases over the years are due to increases in the cost of food, utilities, supplies and equipment and staff salaries. The economy of scale found in large ward-style institutions is lost as more appropriate support is provided and the facilities grow smaller as residents are provided with community living opportunities.*

*People, while described as high functioning, may exhibit behavioural challenges or mental health disorders resulting in the need for a high level of staff support. Higher functioning individuals do not necessarily have lower support costs.*

## **MANAGEMENT INFORMATION SYSTEMS**

### **RESIDENTIAL STATISTICAL SYSTEM**

In our previous audit of the facilities in 1990, we reported that the Ministry's Residential Statistical System was unreliable. The system was established to provide a profile, life skills information, assessment program information, and goals for each resident. It also noted the resident's readiness for placement into the community. The Ministry agreed and indicated that a new system would be implemented in 1990/91. However, a new system was not developed to replace the Residential Statistical System.

### **MOVEMENT OF POPULATION STATISTICS SYSTEM**

The Movement of Population Statistics System collects statistical information on facility residents on a monthly basis through a computerized database. The operational information collected includes admissions, deaths, discharges, leaves of absence and days of care. The main purpose of the system is to enable the Ministry to be informed of the current population levels at the facilities for provincial planning purposes.

We reviewed the information on the database and found that it was not accurate. For example, during 1992/93 the records at the two Ministry-operated facilities we reviewed indicated 7 admissions, 35 discharges and 21 deaths, while the information on the system had 15 admissions, 50 discharges and 26 deaths.

For three of the four agency-operated facilities where we noted errors, agency records indicated 22 deaths from April 1991 to March 1994 whereas the Movement of Population Statistics System showed 31 deaths.

### **BILLING AND CLAIMING FOR CANADA ASSISTANCE PLAN (BILLCAP) SYSTEM**

The purpose of the BILLCAP System, as stated in the Ministry's *BILLCAP Policy and Procedure Manual*, is to:

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- computerize data storage, processing and retrieval;
  - maintain full records of all clients, including those under 18 years of age;
  - determine cost of care for each client in residence;
  - maintain supporting records for claims under the Canada Assistance Plan;
  - record Family Benefits eligibility and Personal Needs Allowance;
  - generate billings for cost of maintenance; and
  - provide necessary statistics for various purposes, for example audit, forecasts and per diem rates.

A 1994 internal review of this system by the Ministry raised several serious concerns such as high error rates resulting in unreliable data and the system's components being written in an obsolete language. Overall, the review questioned the need for the system. At the close of our audit in February 1995, the Ministry was in the process of deliberating the many recommendations made by the review team.

#### **Recommendation:**

**The Ministry should identify what information it needs from the facilities to measure and evaluate the achievement of program objectives, and then ensure that its information systems are suitably modified to provide complete and accurate information which meets the management needs of the Ministry and the facilities.**

#### **Ministry Response:**

*The Ministry agrees that the consistent collection and systemic analysis of information is helpful in a planning process. The Ministry will continue to modify its data information systems to ensure complete and accurate information which meets the management needs of the Ministry and its facilities and transfer payment agencies. Corrective action has been taken where inconsistencies have been found. Steps are being taken to review the data needs of the Ministry.*

## **COMPLIANCE WITH MINISTRY POLICIES AND PROCEDURES**

### **BEHAVIOURAL TRAINING AND TREATMENT**

The Ministry-operated facilities provide behavioural modification training for staff to help them deal with some residents who, on occasion, exhibit behaviours that may be harmful to themselves or others. In 1987, the Ministry developed *Standards for the Use of Behavioural Training and Treatment Procedures (Standards)* for its directly operated facilities. In 1990, in responding to our audit observation that care given by the facilities was not being monitored, the Ministry indicated that these *Standards* would be subjected to "a pilot project to examine the benefits of an overall peer review process for the facilities".

Subsequently, in 1992, the Ministry advised that a peer review of the *Standards* had been conducted at one Ministry-operated facility and that similar reviews would be instituted at

all of its facilities in the future. At the same time, the Ministry's Behavioural Standards Implementation Committee decided that there would be three reviews conducted per year. The Committee also indicated that a report would be issued to the facility within four weeks of the review with the expectation that the facility would institute an action plan to address the recommendations made.

During our current review, we found that, in addition to the pilot project in 1990, the Ministry had completed peer reviews at only three of its nine facilities by April 1993. We also noted that, in one case, the report never proceeded past the draft stage while, in another case, the report was issued to the facility ten months after the review was completed. Furthermore, the Ministry had not analyzed any of the reports nor followed up on the facilities' action plans to address the recommendations made by the peer review teams. For example, at one facility, a peer review team examined a sample of 45 behavioural protocols. The team found that no consent was obtained for two-thirds of these protocols which involved some form of aversive procedures such as mechanical restraints. At a second facility, another team noted a need to upgrade the skill level of direct care staff and to ensure that proper documentation was completed in accordance with the *Standards*. From our own review, we also noted instances where the *Standards* were not being followed.

At the time of our audit in February 1995, the Ministry had not scheduled any further peer reviews at its facilities. In our opinion, completing the peer review process would provide an overview of current practices and enable the Ministry to identify any trends or patterns requiring corrective action.

We noted that for agency-operated facilities, the *Standards* were intended to be used for information and guidance only. The Ministry has informed us that the *Standards* are being used for guidance in policy development.

#### **Recommendation:**

**The Ministry should complete its peer review process for all its facilities and ensure that the Ministry's *Standards for the Use of Behavioural Training and Treatment Procedures* are being followed by the facilities.**

#### **Ministry Response:**

***The Ministry is reviewing the peer review process.***

***Effective monitoring of the Behavioural Standards will continue by the "Behavioural Standards Review Committees" established in each of the facilities. These multi-disciplinary committees have broad audit and quality control responsibilities.***

***In order to ensure that standards remain current and relevant, the Ministry will conduct a review of standards now in place.***

## **SERIOUS OCCURRENCES**

The Ministry requires all facilities to report incidents such as deaths, serious injuries, assault or physical abuse of residents within 24 hours of the occurrence.

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We found that not all serious occurrences were being reported to the Ministry's area and head offices. Furthermore, there were inconsistencies in the interpretation of what should be reported. We made the same observation in our 1993 audit of two other programs, Child and Family Intervention and Young Offender Services, administered by the Ministry. As a result, in October 1993 the Ministry made changes to the serious occurrence reporting procedures which included a "Question and Answer" package to assist facility administrators in interpreting serious occurrences.

The Ministry advised us that during 1994 it continued to monitor the reporting of serious occurrences to ensure completeness. However, our current review revealed that problems persist. For example:

- At the two Ministry-operated facilities we visited, one facility defined fractures and choking episodes as serious occurrences, while the other did not. Consequently, fewer serious occurrences were reported by the second facility. For 1994, in addition to reporting all deaths, the first facility reported 41 other serious occurrences, while the second facility reported only one. Of the 41 occurrences, 34 related to incidents involving fractures or choking. At the second facility, there were a total of 58 incidents of fractures and choking which were not reported to the Ministry's head office.

Additionally, facilities are required to complete and file accident and injury reports for all injuries even if the injury was such that the resident did not see a physician. One use of these reports is to determine whether a serious occurrence report is required. We reviewed the log book for one residential unit at the second facility and found that accident and injury reports were not completed for 10 of the 20 incidents noted in the log book over an eight-month period. We also noted that there was not always a correlation between the severity of an incident and the decision to complete a report.

- Incident reports at agency-operated facilities are not normally reviewed by the area offices. We believe this can be an important monitoring check to ensure that all serious occurrences are reported. For one facility, the area office felt that the number of serious occurrences was low. It undertook to review a sample of incident reports and determined that there were at least an additional eight serious occurrences that should have been reported.
- At another agency-operated facility, we reviewed the incident reports in the presence of the Ministry's program supervisor. Of the 700 reports completed since 1990, the facility had filed all reports involving deaths, but had filed only two other serious occurrence reports. We reviewed 300 of the 700 reports and noted that an additional five serious occurrences should have been reported. In addition, we noted 11 other incidents which, if the definition of a reportable serious occurrence had been clearer, might have been reported.

Without complete information, the Ministry cannot properly analyze serious occurrence reports and identify patterns which may suggest the need for additional training, support or policy modification or corrective action in regard to any particular service provider.

### **Recommendations:**

**To provide assurance that developmentally disabled persons residing in facilities are receiving proper care, there should be stricter monitoring and enforcement by the Ministry to ensure compliance with its serious occurrence reporting procedures.**

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Also, the Ministry should provide clearer definitions of the types of serious occurrences which must be reported.

**Ministry Response:**

*The Ministry had identified the issues within the system and was in the process of addressing these prior to the Auditor's review.*

*The Ministry notes that in the case of the 300 incident reports that were reviewed by the Provincial Auditor at one of the agency-operated facilities, less than 2% were determined to be unreported serious occurrences.*

*The Ministry agrees with the findings regarding compliance and interpretation and has taken extensive steps to address these issues. While implementation issues have been identified, the system as a management tool, is effective. Refinements will continue to be made as required including investigating the potential to automate the reporting system.*

3.02

## PERSONAL NEEDS ALLOWANCE

A Personal Needs Allowance (PNA) of \$112 a month is paid under the *Family Benefits Act* to persons who are 18 years of age and older and have liquid assets of \$3,000 or less. In the case of facility residents, the PNA provides discretionary income to residents to enhance personal choices and independence. For those residents who are deemed incompetent, the funds are paid to the Office of the Public Guardian and Trustee, which releases the funds to the facilities as necessary. A trust account is established at the facilities for the PNA funds in which a maximum of \$300 per resident may be retained.

A 1991 policy and procedure of the Ministry states that "the Personal Needs Allowance is not to be used to supplement the facility budget nor is it intended to pay for goods or services normally considered the responsibility of the facility."

Our review of the use of PNA funds at the two Ministry-operated facilities we visited revealed the following deficiencies:

- The facilities were using the funds to pay for items such as furniture, window blinds, curtains, wall-coverings and carpets that should normally have been paid out of facility funds.
- Facilities are required to obtain approval from the Office of the Public Guardian and Trustee to purchase marketable assets out of PNA funds. However, at one facility, several water coolers were installed, and in another facility, structural decks were installed for the benefit of residents using PNA funds without such approval. On contacting the Office of the Public Guardian and Trustee, we were advised that these were not appropriate PNA expenditures and that the office would not have approved such requests. We noted that the only time facilities routinely contacted the Office of the Public Guardian and Trustee was for reimbursement of funds when there were insufficient funds in residents' trust accounts.
- Counsellors' share of expenses for accommodation, travel and food relating to outings and out-of-town trips were being paid for using PNA funds. According to the Ministry's travel policies, all resident programming expenses incurred by counsellors are to

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be charged against the facility's operating budget. In March 1993, the Ministry's Comprehensive Audit and Investigations Branch made similar observations in its review of another facility. The Branch reported that "the practice of paying staff expenses while participating in activities and trips being paid for by client funds, and possibly without clients' knowledge, does not foster accountability."

For the agency-operated facilities, we noted similar concerns. For example, PNA funds were used to purchase items such as furniture and electronic equipment for resident use in common areas, specialized wheelchairs for residents and the travel costs of staff members to accompany residents on outings and vacations.

#### **Recommendation:**

**The Ministry should monitor adherence to its policy on the use of Personal Needs Allowance funds to ensure that the funds are spent properly by facilities.**

#### **Ministry Response:**

*The Ministry agrees to continue to monitor adherence to its policy on the use of the Personal Needs Allowance funds to ensure that funds are used appropriately. Where compliance issues to the Ministry's policy have been identified, corrective action has and will be taken.*

*A resident's room in a facility is their home. They receive a Personal Needs Allowance which, with the assistance of staff where necessary, may be used to buy items such as bedroom furniture, curtains and wallpaper. These purchases are made in order for them to personalize and enhance their homes beyond the base expenditure provided by the facility.*

*The Ministry will meet with the Office of the Public Guardian and Trustee to ensure that the Ministry's Personal Needs Allowance policy and that of the Public Trustee continue to be compatible.*

## **ATTENDANCE MANAGEMENT**

The effective use of human resources is the responsibility of all supervisory staff. An integral part of the responsibility is to monitor absenteeism to lessen the effects on the disruption of work and the increase in workload for others.

The Ministry's head office does not currently monitor absenteeism in its facilities. Without a proper monitoring system in place, management may find it difficult to effectively manage absenteeism.

For the two Ministry-operated facilities we audited, the average number of days of short-term absenteeism for the last three years was as follows:

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	Facility #1	Facility #2
1992	16	16
1993	15	16
1994	17	14

The cost of absenteeism for the two facilities for the three years amounted to approximately \$15 million consisting of \$8 million for Facility #1 and \$7 million for Facility #2 respectively. Of the approximately 1,800 classified (permanent) employees at both facilities during 1994, over 500 staff had each taken more than 15 sick days.

The Ministry does not know whether absenteeism is unreasonable and is adversely affecting resident care at agency-operated facilities since there are currently no procedures for area offices to monitor the efforts of agency-operated facilities to manage absenteeism.

**Recommendation:**

**The Ministry should ensure that all facilities have procedures in place to monitor absenteeism and take corrective action where necessary.**

**Ministry Response:**

*The Ministry agrees with the recommendation to develop additional strategies to improve attendance management across the system.*

*The Ministry will continue to support attendance improvement strategies by analyzing factors that lead to increased absence and review of "best practice" strategies used by other sectors. In addition the Ministry will pursue steps that include individual and personal attention to an employee's absenteeism problem, integrating systems and tracking to assist in monitoring, and training for both employees and managers.*

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## MINISTRY OF CONSUMER AND COMMERCIAL RELATIONS

# Business Division Program

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The stated objective of the Ministry of Consumer and Commercial Relations' Business Division is to promote a fair and informed marketplace which supports a competitive economy in Ontario. The Division consists of three branches: the Companies Branch, the Business Affairs Branch and the Consumer Affairs Branch.

The Companies Branch is responsible for registering and maintaining public records on businesses and non-profit organizations. Our audit did not include this branch which was only recently transferred into the Business Division as part of a reorganization of the Ministry.

The Business Affairs Branch and the Consumer Affairs Branch, with a total of about 140 staff, are responsible for:

- registering and regulating certain businesses such as real estate and business brokers;
- resolving marketplace issues such as franchising, vacation timesharing and negative option billing for cable television;
- mediating consumer complaints and enforcing consumer protection legislation; and
- educating consumers and businesses.

For the 1994/95 fiscal year, expenditures of the Business Affairs Branch and Consumer Affairs Branch totalled approximately \$9.2 million and revenues totalled approximately \$9.1 million.

## OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry's Business Division had adequate procedures in place to measure and report on program effectiveness and to promote a fair and informed marketplace.

Our audit included interviews with Ministry officials and reviews of files and any relevant work done by the Ministry's Operational Review and Audit Branch.

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# OVERALL AUDIT OBSERVATIONS

The Division did not have adequate procedures in place for measuring and reporting on its program effectiveness. The Division needs to develop more meaningful performance indicators to assess how effective it is in meeting its mandate.

## DETAILED AUDIT OBSERVATIONS

### MEASURING AND REPORTING PROGRAM EFFECTIVENESS

3.03

#### CONSUMER COMPLAINTS

The Division's Consumer Affairs Branch offers a mediation service which attempts to resolve disputes between consumers and businesses. In addition, all complaints are examined to determine whether a contravention of the Ministry's consumer protection legislation has occurred. If this is the case, an inspection or investigation may be conducted and appropriate action taken, such as laying charges against the businesses.

In mediating complaints, the Ministry cannot compel the payment of compensation or impose a settlement. When complaints are lodged, consumers are usually advised of their rights to review their complaints with legal counsel or file a claim with Small Claims Court.

According to the Ministry's 1994/95 statistics, the Consumer Affairs Branch has about 60 staff who handled approximately 24,000 telephone enquiries, 2,900 written complaints and 2,000 inspections and investigations.

Our review indicated that the Division's procedures for mediating and inspecting or investigating complaints were generally satisfactory. However, the Division has not measured the effectiveness or timeliness of its mediation efforts and the extent of consumer and business satisfaction with its services. Our recommendation is included in the following section.

#### PERFORMANCE INDICATORS

The overall objective of the Business Division is to promote a fair and informed marketplace. Currently, the Division reports information on the number of complaints received and the number of inspections and investigations completed. This information provides some indication of workload but is not an indicator of the program's effectiveness in meeting the Division's objective.

The following performance information would be more useful for measuring and reporting on the program's effectiveness:

- results achieved in resolving major consumer marketplace issues, such as negative option billing;
- impacts achieved through registration and regulation of businesses;

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- success rate and timeliness of complaints mediated or resolved; and
  - extent of consumer and business satisfaction with services provided.

#### **Recommendation:**

The Ministry should establish more meaningful performance indicators to measure and report on the effectiveness of the Business Division's programs.

#### **Ministry Response:**

*Several initiatives are currently under way with respect to measuring and improving the efficiency and effectiveness of the Division's programs. These include:*

- *a process of establishing acceptable service times and standards for processing business registrations;*
- *completing a comprehensive study on the effective operation of the Division's voice response system. Recommendations are currently being implemented;*
- *establishing a Customer Service Committee with the Ontario Real Estate Association. Real estate activity constitutes approximately 60% of the registration workload for the Business Affairs Branch.*

*It is expected that efficiency standards will be in place by early 1996. Once the efficiency standards are in place, performance indicators to measure and report on the effectiveness of the Division's programs on an ongoing basis will be established and be in place by mid 1996.*

## **A FAIR AND INFORMED MARKETPLACE**

### **MARKETPLACE ISSUES**

The Division currently administers 28 pieces of legislation, twenty of which—such as the *Consumer Protection Act* and the *Real Estate and Business Brokers Act*—have a distinct consumer protection thrust and regulatory focus. Many of these acts were enacted a number of years ago and the Division's approach to protecting consumers had been primarily to address individual consumer complaints on a case-by-case basis. During our audit, the Division indicated that its current strategic focus is moving towards resolving marketplace issues as a whole and working in partnership with consumers and businesses.

Accordingly, we reviewed the Division's procedures for addressing major marketplace issues. Our review indicated that in January 1995, the Ministry established an Issues Monitoring Unit to monitor the marketplace, work with outside organizations, and identify trends and issues that will require action. In addition, the Ministry has established other mechanisms for determining the appropriate action that should be taken to resolve marketplace issues. The Ministry is currently working towards implementing a systematic approach to prioritizing marketplace issues in order to determine the areas in which consumer protection is needed most. The Division has indicated that, until recently, its information system has been unable to provide the information necessary to support the analyses needed for prioritizing marketplace issues.

In the absence of a systematic approach to prioritizing marketplace issues, the Division may tend to concentrate on issues that have been receiving considerable attention in the media or the Legislature, even though there could be other more important or persistent issues that warrant action. For example, the Ministry's statistics show that consumers have for a number of years reported more problems with motor vehicle sales and repairs and home improvements than with other areas. However, the Division had not systematically analyzed the pattern of occurrences and had not taken steps to minimize the problems. Consequently, the number of complaints for these areas continued to be high.

A systematic approach to prioritizing marketplace issues should consider criteria such as:

- the risk of consumers incurring financial losses and the potential amount of those losses;
- media and legislative concerns;
- business and consumer groups concerns and initiatives;
- the level and nature of complaints; and
- the vulnerability of specific consumer groups such as the elderly.

#### **Recommendation:**

**The Ministry should adopt a more systematic and risk-based approach to effectively prioritize marketplace issues and develop solutions for them.**

#### **Ministry Response:**

*As noted in the audit report, the Ministry now has mechanisms in place for determining the appropriate action that should be taken to resolve marketplace issues. It is accepted that the Ministry requires a more systematic method that can effectively prioritize marketplace issues, taking into consideration the suggested criteria. The following processes will accommodate this need.*

*The Division's computer system, the Shared Inquiry Registration Enforcement Network, now has a facility to identify trends and issues that need to be addressed based on complaints received, and investigations and inspections conducted. Information obtained from this database will then be used for identifying trends and prioritizing marketplace issues.*

*Additionally, the Division's Voice Processing System will be monitored, and ongoing communication with industry groups and law enforcement agencies will also assist in identifying emerging trends and marketplace issues that need to be resolved.*

*These processes will be in place and operational by early 1996.*

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## MINISTRY OF CONSUMER AND COMMERCIAL RELATIONS

# Elevating Devices Program

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The objective of the Elevating Devices Program is to minimize safety risks associated with elevating devices. The program operates under the authority of the *Elevating Devices Act* and is administered by the Technical Standards Division of the Ministry.

The division has approximately 50 inspectors and trainees with responsibility for ensuring the safety of approximately 38,000 elevating devices. Most of the devices are passenger elevators. Other devices include escalators, lifts and hoists.

Other programs of the division are concerned with boilers and pressure vessels, hydrocarbon fuels and equipment, and upholstered and stuffed articles. In the 1994/95 fiscal year, expenditures for the division totalled approximately \$16 million and revenues generated through registration, inspection and certification activities totalled approximately \$18.8 million.

## OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry had in place:

- an adequate system of inspections for elevating devices to ensure that safety risks are minimized; and
- adequate procedures to measure and report on the effectiveness of the Elevating Devices Program.

Our audit activities included interviewing Ministry officials and reviewing files. In addition, we followed up on the status of the recommendations made in our last report on the program in 1992.

## OVERALL AUDIT OBSERVATIONS

Since our last audit, the Ministry has taken some action towards ensuring the safety of elevating devices. However, in order to minimize safety risks associated with elevating devices the Ministry needs to:

- assign inspection cycles for elevating devices based on risk assessment;
- ensure that all elevating devices are inspected within their inspection cycles; and
- ensure that all elevating devices found to be in violation of safety standards are appropriately reinspected.

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Better indicators are needed to measure and report on the program's effectiveness in ensuring the safety of elevating devices.

## DETAILED AUDIT OBSERVATIONS

The *Elevating Devices Act* requires the owners of elevating devices to ensure that their devices conform with safety standards, are in a safe operating condition, and are regularly maintained and tested by a contractor registered with the Ministry.

Designs for new or significantly altered devices are required to be approved by a professional engineer prior to being submitted for review and registration by the division's engineering staff. All newly installed and significantly altered elevating devices must be inspected before being put in service to ensure that they are constructed, and that they operate, according to design specifications.

Once devices are in operation, the Ministry is required to periodically inspect them to ensure that they are operating safely and are properly maintained by contractors on an ongoing basis. Additionally, inspectors are required to investigate and report on any incidents or accidents relating to elevating devices. Owners of devices found to be in violation of safety standards or to be operating in unsafe conditions are ordered to redress the deficiencies within a specified time. Devices posing immediate safety hazards are ordered shut down until repairs or modifications are made.

### 1992 AUDIT REPORT

In our 1992 report, we made several observations regarding the need for improvement to inspection activities. The following table provides a summary of our observations, the Ministry's responses, and the current status of our 1992 recommendations.

Our Observations	Ministry's Response	Current Status
Elevators were not inspected within their assigned inspection cycles.	The Ministry is implementing risk-management processes that will have the ability to assign periodic inspection cycles based on the identified risks for each device.	The Ministry is in the process of implementing risk-management processes; its latest plan is to have it implemented by June 1996. (See observations in this report under <i>Inspection Priorities and Cycle</i> .)
The Ministry needed to optimize inspection resources.	The Ministry did not have the number of inspectors it required in order to provide ongoing inspection coverage to all areas of the province. The Branch has begun an internal training program and has hired a number of trainees who will be assigned to the vacancies in the districts upon completion of their training programs.	The Ministry has since hired 28 inspectors and trainees who have either completed or are undergoing their training programs. It is expected that, by December 1995, all districts will be fully staffed.
Disciplinary action was inadequate against elevator contractors who repeatedly violated important safety requirements.	The Elevating Devices Branch has taken appropriate action against contractors who violate the <i>Elevating Devices Act</i> .	The Ministry has taken adequate action against contractors who were found to violate safety requirements. This includes calling hearings, issuing warnings and prosecuting contractors.
The Ministry lacked specialized electronic engineering expertise to enable it to evaluate certain electronic components in new and existing elevators.	The need for specific electronic engineering expertise with the Elevating Devices is recognized. The Branch has taken steps to recruit an electronic engineer at the beginning of the 1993/94 fiscal year.	The Branch hired an electronic engineer effective March 1, 1995.

Additionally, the Ministry indicated that Section 12 of the B44 Safety Code for elevators was adopted and enforced by Ontario as of April 1, 1993. Section 12 is part of a national standard which deals with safety for elevators, escalators, moving walkways and freight platform lifts. This section of the Code provides for mandatory maintenance requirements for elevating devices to be performed by contractors at specified intervals. These maintenance requirements should reduce the potential for accidents and reduce the need for inspections of elevating devices.

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## INSPECTION PRIORITIES AND CYCLE

In its response to our 1992 report, the Ministry stated that risk-management processes for assigning inspection priorities were being implemented:

*The Elevating Devices Branch is currently implementing an automated licensing, registration and inspection system which will provide management with a sophisticated risk-management tool. Phase I of the Inspection, Design, Engineering, Data Cross Reference System (INDEX) has been implemented. Phase II, the inspection system, is expected to be implemented in the fall of 1992. When the database is fully populated, the Branch will have the ability to cross-reference the inspection history of an elevating device, its technical specifications and the performance record of its maintenance contractor in order to assign a periodic inspection cycle based on the identified risks for each device. This cycle may be annual or it may be as high as every five to six years.*

3.04

During a review of our report by the Public Accounts Committee on January 14, 1993, the Ministry further indicated that the first two phases of the INDEX project were completed and that the third phase would be completed by May, 1993. By the end of 1993, it was to have a very sophisticated system of assessing risk and assigning inspectors.

The INDEX project for the division was initially approved by Management Board of Cabinet in January, 1990 at a cost of \$5.1 million. The Ministry's submission to the Board identified three proposed components of the project:

- moving office applications such as licensing information from the old computer system into the new one;
- developing applications that would allow for the collection, storage and retrieval of technical data; and
- developing risk-management processes.

We estimated that as of December, 1994, costs incurred on the project totalled approximately \$7.4 million.

### CURRENT STATUS

At the time of our audit in early 1995, the risk-management processes had not been implemented. As a result, there was still no effective mechanism for assigning inspection cycles for elevating devices.

The Ministry has since indicated that the INDEX system would not be used to assign an automated inspection cycle for every elevating device. Rather, when implemented, the risk-management processes would use data from the INDEX system to analyze risk areas. Once the risk areas have been analyzed, an action plan would be developed. According to the Ministry, the action plan could include setting the frequency of the inspection cycle, shutting down a device, or ordering the owner to modernize, modify or refit the device.

The division recently prepared a strategic plan outlining implementation of various phases of the risk-management processes by June 30, 1996. However, the plan was general and contained only a broad outline of the actions and target dates for the completion of each phase. It did not include detailed information on how the phases were to be implemented. In addition, we noted that the June 30, 1996 date only related to implementation of the risk-

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management processes, and did not include a timetable or course of action for assigning inspection cycles to elevating devices.

**Recommendation:**

**The Ministry should develop:**

- a specific action plan for implementing the risk-management processes; and
- a timetable and course of action for assigning inspection cycles in order to minimize safety risks associated with elevating devices.

**Ministry Response:**

*The Ministry agrees with this recommendation, and places very high priority on the implementation of risk management processes. A steering committee composed of senior managers, including the Assistant Deputy Minister and branch directors, has been struck and held its first meeting May 8, 1995. It approved a number of projects, including a process to prioritize inspections. By June 30th, 1995, it will develop a more detailed risk management plan.*

## BACKLOGS

The division is giving priority to investigating incidents and accidents and inspecting initial installations. With the time remaining, inspectors are conducting periodic inspections and reinspections of devices with outstanding orders that called for compliance with specific safety requirements.

Until the Ministry implements a specific action plan and establishes an appropriate inspection cycle, inspectors must use their own judgment to prioritize and assign periodic inspection cycles. In assigning cycles, they consider factors such as inspection history, age and condition of elevators, the performance records of the maintenance contractors, and the type of buildings. The usual practice has been to assign an inspection cycle of up to 36 months.

At the time of our audit, the division's records indicated that about 24,000 of the province's 38,000 elevating devices had not been inspected within their assigned inspection cycle. Furthermore, 8,000 of the devices had been overdue for inspection for over three years. In the absence of appropriate inspection cycles, inspectors were not able to determine whether these were high-risk devices.

Devices found to be in violation of safety standards were ranked according to their seriousness, and according to Ministry officials, should have been reinspected. As of December 1994, we noted that 2,000 devices identified by inspectors as requiring reinspections were overdue for an average period of more than one year. Of these, 170 devices had been classified by the Ministry as requiring prompt action and reinspection. The reasons for not conducting the reinspections were not documented.

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**Recommendation:**

**The Ministry should take timely action to inspect devices that are overdue for inspection or reinspection.**

**Ministry Response:**

*Elevating Devices staff have already taken action to address this issue. The backlog was caused by a reduction in the number of inspectors due to the Factor 80 program. At its lowest point in 1992, the staffing level was reduced to 24. Since then, graduates of the training program have been added to the staff, bringing it to its current level of 43. Management reports have been developed to monitor outstanding reinspections. Overdue reinspections will be given top priority.*

## 3.04

### INSPECTION ACTIVITIES

We reviewed the division's system for carrying out inspections and noted a need for improvement in the following areas:

- The division's inspection manual does not provide guidelines to assist inspectors with conducting inspections. The Ministry indicated that it was in the process of revising its inspection manual to include detailed procedures and guidelines for conducting an inspection.
- The rationale for prioritizing, assigning and changing inspection cycles was not documented. Furthermore, inspectors only reported violations of safety standards and not on all work completed. The lack of documentation makes it difficult to determine whether the assigned inspection cycles and any changes made were justified, whether all required work was done, and whether inspections were properly conducted.
- Inspection reports were not systematically reviewed to assess the adequacy of the inspections. An independent review of inspection reports and other pertinent information would provide useful feedback for future inspections and staff training. This review would be even more important in cases where an incident or accident occurred after an inspection, as it could help to determine the cause of the incident or accident and whether it could have been prevented.

**Recommendation:**

**To improve the system of inspecting elevating devices, the Ministry should require appropriate documentation of inspection activities and systematically assess the adequacy of inspections conducted.**

**Ministry Response:**

*The Ministry is confident that its inspectors are carrying out effective and high quality inspections. This view is shared across North America. Ontario has the reputation of having one of, if not the strictest enforcement regimes on the continent. However, we recognize that we can improve the documentation of inspection activity and assess the inspections. To achieve this, a new procedure manual is in the final stages of development. Once this has been issued, the Ministry will train*

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*staff in its use. This will likely be done at the technical conference in the fall. By then, the Ministry will also have in place management reports which will help ensure consistency. To enhance this process, regional managers will increase the amount of time they spend with the inspectors in the field. Inspection reports will be reviewed on a sampling basis.*

## **DATA INTEGRITY**

For the INDEX system to support an effective risk-management process, the data being collected and maintained by the system's database must be complete and accurate. Our tests of the system identified the following deficiencies:

- Adequate procedures were not in place to detect and correct data entry errors. For example, we found numerous instances where the time recorded for conducting an inspection was incorrect. As another example, the system reported duplicate inspections for about 150 devices.
- Results of the investigations of 550 incidents or accidents occurring prior to the implementation of INDEX had not been entered into the system.
- INDEX produces a quarterly report which is used by inspectors to schedule periodic inspections. We found that the system had been programmed to schedule the next periodic inspection based on the date of the most recent visit by an inspector, regardless of whether the visit was a full inspection or a follow-up visit. As a result, the periodic inspection dates for about 11,500 devices were incorrect.

Due to the above problems with the system, inspectors had to rely on their own records for information and for adjusting the devices' inspection schedule. As well, at the time of our audit in January, 1995, there were approximately 200 request for change orders from users of the system. The division was aware of the problems.

### **Recommendation:**

**The Ministry should take steps to verify the integrity of data produced by INDEX. This could include instituting edit checks and reviewing existing operating procedures and/or system design.**

### **Ministry Response:**

**Data Entry Errors** - *The Division has implemented procedures to detect and correct errors.*

**System Edit Checks** - *Where edit checks will help to reduce errors, they will be built into the system.*

**Input of Incidents/Accidents Prior to the Implementation of INDEX** - *The data has been entered and an analysis will be complete by the middle of the summer.*

**System Design** - *The Business Systems section is developing a new process to assess the need for and priority of Change Requests.*

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*The need to complete the remaining Change Requests has been discussed at Ministry Management Committee, and it is understood that the issue must be resolved. A business case is being prepared requesting resources; a decision on the availability of funding should be available by the end of July, 1995.*

## MEASURING AND REPORTING PROGRAM EFFECTIVENESS

The stated objective of the program is to minimize risks and ensure the safety of elevating devices.

Information about inspection activities was reported quarterly to management. These reports contained information such as the total number of inspections conducted, total inspection time, number of accidents reported, and average inspection time. However, this information was not analyzed and compared to any standards, targets or similar information from prior periods. Consequently, management did not have the information needed to measure the extent to which the program is meeting its objective.

Additionally, the following information would be useful for measuring and reporting on the program's effectiveness:

- trends in incidents and accidents relating to elevating device failures;
- criteria for measuring the performance of contractors and inspectors;
- comparison of performance indicators (e.g. accident rates) with other jurisdictions; and
- targets and results for reducing overdue inspections;

### **Recommendation:**

**The Ministry should develop and promulgate sound indicators to measure and report on the program's effectiveness in meeting its stated objective.**

### **Ministry Response:**

***A formal operational planning and results management process is being developed. It will be implemented by the end of the current year.***

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# MINISTRY OF ECONOMIC DEVELOPMENT, TRADE AND TOURISM AND THE MINISTRY OF NORTHERN DEVELOPMENT AND MINES

## jobsOntario Community Action Program

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The jobsOntario Community Action program (jOCA) was introduced by the Ontario government in its 1993 *Budget*. The purpose of the program is to assist community economic development through the support of community capacity building activities, financing instruments and capital projects. For example, jOCA provides funding for community centres and recreation facilities and various training and development initiatives. In doing so, jOCA has replaced a number of previously existing programs.

The objectives of the program are: to foster community self-reliance; to sustain economic growth and investment through local planning; to create greater co-operation and new partnerships which include members traditionally excluded from economic planning and growth; to move provincial decision-making closer to communities; and to promote the development of local enterprises and jobs using locally-based financing.

The government's initial commitment to jOCA was for \$300 million over three years. This commitment represents a consolidation of predecessor programs administered by the Ministries of: Economic Development and Trade; Northern Development and Mines; Culture, Tourism and Recreation; Citizenship; Agriculture, Food and Rural Affairs; and Municipal Affairs.

As of March 31, 1995, \$193.6 million had been committed to jOCA-funded projects, of which \$137.7 million had already been spent. Of the amount committed, \$65 million relates to pre-jOCA and transitional project grants. Although funded by jOCA, the pre-jOCA grants were considered and approved under the predecessor programs.

(Note: Since the completion of our field work, the Ministry of Culture, Tourism and Recreation and the Ministry of Citizenship have been reorganized as the Ministry of Citizenship, Culture and Recreation and the Ministry of Economic Development, Trade and Tourism; and the Ministry of Municipal Affairs is now part of the Ministry of Municipal Affairs and Housing. The references to ministries in this report are to those which existed during the period of this audit.)

### OBJECTIVES AND SCOPE

Our audit objectives were to assess whether:

- an effective administrative framework has been established for the program; and

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- adequate procedures were in place to approve or reject grants based on the criteria established for the program and to determine whether grant amounts are reasonable.

The scope of our audit included a review and analysis of jOCA's administrative procedures as well as interviews with appropriate staff. We also reviewed a representative sample of project files administered by the Ministries of Culture, Tourism and Recreation; Citizenship; and Northern Development and Mines. These Ministries administer the grants for 90% of the projects approved to date. We also conducted site visits at seven grant recipients.

However, our audit did not include a review of any projects which had been approved under any of the predecessor programs. In addition, since most of the jOCA-funded projects were not completed at the time of our audit, we could not assess the reasonableness of the total project costs incurred or whether they achieved their original objectives.

## OVERALL AUDIT OBSERVATIONS

The Ministry of Economic Development and Trade and the Ministry of Northern Development and Mines are responsible for overall fund administration for southern and Northern Ontario respectively. At the time of our audit, they had not established effective administrative standards for the management of projects to be used by all delivery ministries. For example, acceptable administrative standards had not been established for the assessment of applicant needs and the reasonableness of project costs.

However, the Ministry of Economic Development and Trade entered into Memoranda of Understanding with its delivery Ministries in October 1994, which essentially confirmed the overall program roles and responsibilities originally described in Cabinet minutes which established the program. As of March 1995, the Ministry of Northern Development and Mines still had not entered into Memoranda of Understanding with its delivery Ministries.

In addition, the accountability relationships between the delivery Ministries and grant recipients did not meet the standards established in Management Board Directives in that:

- explicit and measurable project expectations were frequently not defined;
- contractual agreements were often inadequate because they lacked normally expected terms and conditions; and
- project reporting to, and project monitoring by, the delivery ministries was inadequate.

As a result, in our review of a sample of project files, we noted a number of problems including:

- inadequate assessments of needs, a lack of consideration of alternatives for grant applicants and funding for ineligible project components;
- a lack of detailed cost estimates and inadequate procedures for verifying actual costs to ensure project costs and consequent grants are reasonable; and
- significant amounts paid to grant recipients long before project expenses were incurred.

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## DETAILED AUDIT OBSERVATIONS

### GRANT APPROVAL PROCESS

For the purpose of administering jOCA, the province has been divided into three regions in the south and two in the north. Each region is administered by a jOCA team made up of representatives from the participating Ministries.

In both southern and Northern Ontario, each application is assigned to a field consultant from a delivery Ministry who retains responsibility for the project file throughout the life of the project. The consultant provides advice to the applicant about the requirements for jOCA funding and helps develop the application for submission to the regional team. The consultant also has responsibility for verifying the information in the application and for monitoring compliance with the grant conditions as the project proceeds.

#### SOUTHERN ONTARIO

The regional teams assess each application and can approve grants of up to \$50,000. Grants over \$50,000 are submitted to a core team composed of the regional chairs, representatives of the other Ministries and Ministry of Economic Development and Trade staff. The core team reviews proposals for completeness and co-ordinates their presentation and recommendation to the Minister of Economic Development and Trade.

Grants between \$50,000 and \$1 million need to be approved by the Minister of Economic Development and Trade and those over \$1 million require approval by the Treasury Board of Cabinet.

#### NORTHERN ONTARIO

In Northern Ontario, the two regional teams review proposals and make their recommendations directly to the Minister of Northern Development and Mines, who makes all decisions regarding the approval of grants up to \$1 million. Grants over \$1 million must also be approved by the Treasury Board of Cabinet.

As of March 31, 1995, project commitments by level of approval were as follows:

	Number of Projects	Commitment (\$millions)
Approved by Regional Teams	335	8.1
Ministerial Approval	572	87.1
Treasury Board Approval		
—jOCA projects	13	25.4
—Aboriginal program allocation		8.0
		128.6
Pre-jOCA Commitments		65.0
TOTAL		193.6

Source: Ministry of Economic Development and Trade

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## ADMINISTRATIVE FRAMEWORKS BETWEEN MINISTRIES

As the funding Ministry for jOCA, the Ministry of Economic Development and Trade was assigned responsibility by Cabinet for establishing common administrative standards and processes for the program in consultation with the Ministry of Northern Development and Mines and the core team. In addition, both Ministries were directed to monitor individual projects in their respective jurisdictions against the common administrative standards and processes that apply to all projects under the program.

However, at the time of our audit, mandatory common administrative standards with respect to the management of projects had not been established. Although the Ministry of Economic Development and Trade published a *Project Development Guide* and a *Program Administration Guide* for southern Ontario in March 1994, these did not address many of the administrative requirements which would normally be expected. For example, they did not establish requirements for assessing applicant needs, considering alternatives or determining the reasonableness of project costs. In addition, compliance with the guides was not mandatory.

The lack of administrative standards also precluded the establishment of a meaningful compliance monitoring process by either of the program-administering Ministries.

Each Ministry's respective role and responsibilities, including the requirement to follow established administrative practices, ought to be documented in a Memorandum of Understanding. Although the Ministry of Economic Development and Trade did enter into Memoranda of Understanding between itself and the five other delivery Ministries starting in October 1994, these essentially confirmed the overall program roles and responsibilities originally described in the Cabinet minutes which established the program and did not establish the key project level administrative practices essential to the consistent and effective implementation of the program.

We also noted that as of March 1995 the Ministry of Northern Development and Mines had still not entered into Memoranda of Understanding with its delivery Ministries.

### **Recommendations:**

**The Ministry of Economic Development and Trade, in consultation with the Ministry of Northern Development and Mines and the core team, should carry out the Cabinet's direction and establish more appropriate administrative standards and processes for all jOCA projects and monitor them for compliance.**

**The Ministry of Northern Development and Mines should enter into Memoranda of Understanding with its delivery Ministries. All Memoranda of Understanding should set out clearly the roles and responsibilities of each Ministry, including the need to comply with common administrative standards and processes.**

### **Ministry Response:**

***We are re-visiting the standards and processes to ensure greater clarity and understanding.***

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***All the Memoranda of Understanding (MOUs) have now been completed with the exception of the MOU between the Ministry of Culture, Tourism and Recreation and the Ministry of Northern Development and Mines. The existing MOUs will be re-examined in light of the recent portfolio changes within the Government.***

## ACCOUNTABILITY FRAMEWORK BETWEEN DELIVERY MINISTRIES AND GRANT RECIPIENTS

The Management Board of Cabinet *Directive for Transfer-Payment Accountability* (1-11) requires the establishment of an effective accountability framework to hold transfer payment recipients accountable for their management of public funds. An underlying principle of the Directive is that the expenditure of public funds should be managed prudently.

The Directive prescribes a four-step process:

- setting expectations (deciding on the objectives and results that the recipient is to achieve with the transfer payment);
- contracting (entering into an agreement with the recipient);
- reporting (timely reporting on the achievement of objectives and results by the recipient); and
- taking corrective action (taking necessary action to ensure achievement of objectives and results).

However, based on our review of a sample of project files, these requirements have often not been met. In our view, this has contributed to a number of grant administration problems and the many project-specific comments and concerns which follow.

### **Recommendation:**

**Each delivery Ministry should ensure that its project management practices conform with the Management Board *Directive for Transfer Payment Accountability*.**

### **Ministry Response:**

***Each Ministry will review its project management practices to check that the four-step process identified in the Management Board of Cabinet Directive for Transfer Payment Accountability (1-11) is being followed.***

## GRANT AGREEMENTS

In addition to the original application form, the Ministry of Economic Development and Trade developed three template grant agreements to be used for various types of grants which were included in the *Program Administration Guide* for southern Ontario. However, in practice most Ministries did not adopt them. This contributed to the variances in the

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quality of the contractual arrangements entered into which often failed to protect the Ministries in some important respects.

Based on the sample of agreements we reviewed, we found that:

- all northern projects used a standardized grant agreement developed by the Ministry of Northern Development and Mines;
- many projects in southern Ontario employed follow-up agreements to the original application form which included some, but not all, necessary follow-up terms and conditions; and
- eight of the Ministry of Culture, Tourism and Recreation's projects in two regions, including the largest grant we reviewed, of \$3 million, had none of the normally expected terms and conditions, as the agreements consisted of the original application form only.

As a result, many southern Ontario agreements lacked provisions such as requirements that grant recipients:

- acquire goods and services using a competitive selection process;
- acquire insurance coverage to specified levels;
- obtain Ministerial approval prior to disposing of provincially funded assets;
- ensure that organization members hold themselves free of any actual or perceived conflict of interest, and
- accrue interest on unexpended grant funds to the credit of the Province.

#### **Recommendation:**

**Delivery Ministries should ensure that jOCA grant agreements include all necessary provisions to protect the Ministries' interests.**

#### **Ministry Response:**

***We agree that grant agreements should include all the necessary provisions. We will include in our administration standards the requirement for the essential terms and conditions for all future grant agreements.***

## **GRANT ELIGIBILITY**

In establishing the jOCA program, Cabinet established general guidelines with respect to the eligibility of applicants and projects. These included, for example, a requirement that jOCA not fund projects or portions of projects that are eligible for funding under other provincial programs. Eligibility criteria were further refined through a series of question and answer papers which were widely distributed.

However, there was no evidence in the files we reviewed that projects were assessed for eligibility against all funding criteria. For example, there was frequently no assessment of whether projects were eligible for funding under other government programs and consequently ineligible under jOCA.

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Our review of project files indicated a number of instances where portions of grants were provided for ineligible purposes:

- portions of several grants reviewed included funding for handicapped access facilities which would have been eligible for funding under other provincial programs and consequently were ineligible under jOCA; and
- \$25,000 of a \$237,000 grant was used to construct space used for religious purposes which is also ineligible under the program. In addition, we found that insufficient information had been obtained by the delivery Ministry to assess whether the remainder of the grant was used for eligible purposes.

#### **Recommendation:**

**The delivery Ministries should ensure that jOCA grants are approved and used only for eligible purposes.**

#### **Ministry Response:**

*We agree that grants should only be approved and used for eligible purposes. We will strengthen the assessment process in this area for future projects.*

## **ASSESSMENT OF APPLICANT NEEDS**

Given the expected number and diversity of grant applications, it is important that the project screening process adequately assess each applicant's needs. jOCA should fund only projects consistent with its goals and objectives and that will fulfil justifiable needs cost effectively.

However, in many of the files we reviewed, there was no evidence that applicants had justified the need for their proposed projects or that the reasonableness of these justifications had been objectively assessed.

For example, our sample of project files included four projects for the construction of community centres for ethnic groups. None of the groups concerned was required to demonstrate a justifiable need for its own community centre or that suitable facilities such as school auditoriums or municipal facilities were unavailable in its area. Based on our review of the documentation available to us, the community need which these projects satisfied was the desire by the groups concerned to have their own separate facilities rather than access to suitable, but shared ones.

We also found no evidence that the scale and cost of projects had been reviewed and assessed for reasonableness. For example, based on our review of two project files and information provided to us at the time of our audit, two groups of similar size and nature applied for and received jOCA funding to build community centres. However, one of the community centres was twice the size and cost of the other and, as a result, its jOCA grant was over twice as large.

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**Recommendation:**

**Ministries should maintain adequate documentation demonstrating:**

- how the community needs described by the applicant were verified;
- alternatives considered for meeting those needs; and
- that the alternative selected was the most suitable to satisfy those needs.

**Ministry Response:**

*We will examine opportunities to strengthen documentation in the review and assessment of future projects.*

## 3.05

### REASONABLENESS OF PROJECT COSTS

Community development and community capital projects receive provincial support of up to one third of their cost in communities with populations of 10,000 or more and one half of their cost in smaller communities. The provincial portion of any project can be increased to as much as three quarters with Ministerial approval. There is a \$375,000 ceiling on development grants and a \$3 million ceiling on capital grants.

Estimated project costs are the basis on which the original grant amounts are determined and progress payments are made. As a result, determining the reasonableness of project cost estimates is essential to ensure that initial jOCA grants and interim payments are reasonable and fall within program guidelines. For example, if project cost estimates were overstated, jOCA could approve grants for amounts higher than warranted or a higher proportion of actual project costs than permitted under the program. Conversely, if the project costs were underestimated, the project might not be completed without additional funding which might be difficult to obtain.

In nearly half of the grant files we reviewed we found inadequate information or basis on which management could assess the reasonableness of the proposed project costs and, consequently, the reasonableness of the grants requested and approved.

Even in those cases where some estimated project cost information was provided prior to approval, there was no evidence that its reasonableness was assessed. For example, we reviewed one training project whose objective was to "enhance the understanding of Community Economic Development (CED) and facilitate participation in the Province's CED initiatives by marginalized communities." The total cost of the project was estimated at \$516,000 of which \$248,100 was provided by jOCA.

We noted that the project's only tangible output was a total of seven days of training for a class of 30 individuals which was designed to generate future funding requests under the program.

Estimated project costs funded by jOCA included:

- \$30,000 for training fees;
- \$10,800 for facilities rental and meals for two of the workshops calculated at \$90 per participant per day;
- \$8,000 for eight months of research at \$1,000 per month;

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- \$40,000 for project co-ordination and administration; and
  - \$120,000 for organizational seed money, including honoraria.

In the absence of additional details with respect to the necessity of these items or how the amounts were determined and spent, these jOCA-funded project costs are highly questionable.

To ensure that actual expenditures approximate the originally estimated costs and form the basis of the final grant settlement, recipients of government grants, particularly those receiving larger grants, are normally asked to provide audited statements of project costs. However, there is no such requirement for jOCA grants, although grant recipients in the North have to certify the total expenditures incurred.

In addition, there is no requirement in the grant agreements we reviewed that recipients have to provide a detailed accounting of, and support for, actual expenditures incurred. Although the jOCA application requires recipients to maintain all records, invoices and other documents relating to the grant for a period of three years for possible inspection by the Ministry, we found no evidence that any such inspections have been completed to date.

Without requirements for independently audited project cost information, or regular detailed spot checks by Ministry staff, there is no assurance that costs claimed are valid, accurate, reasonable and eligible for jOCA funding.

## VALUATION OF IN-KIND CONTRIBUTIONS

In many instances, part or all of a grant recipient's contributions are made up of in-kind contributions. In-kind contributions normally consist of volunteer services provided by an organization's members and require no cash outlay by the grant recipient.

As a result, valuing in-kind contributions correctly, although inherently difficult, is important in determining the reasonableness of a project's total cost and ensuring that jOCA funding does not exceed program guidelines.

However, in many of the project files we reviewed there was inadequate detail to determine whether contributions in-kind were either necessary or reasonably valued. In addition, where some detail was provided, there was no evidence that its reasonableness was objectively assessed. For example:

- in the training project referred to previously, all of the applicant's contribution, valued at \$267,900, was made up of in-kind contributions, including:
  - \$209,400 for project co-ordination, the basis of which is not clear;
  - \$36,000 for office expenses, the basis of which is not clear; and
  - \$22,500 for course participants' time valued at \$150 per day.
- a Canada Day street festival held by a group of merchants received a jOCA grant of \$35,500. The recipient's contributions consisted entirely of in-kind services estimated to total 8,000 hours of labour and valued at \$148,500. This included 188 hours of an organizer's time valued at \$200 per hour.

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**Recommendation:****Participating Ministries should:**

- obtain detailed cost estimates for each component of the proposed project, including contributions in-kind;
- review and objectively assess the necessity and reasonableness of the cost attributed to each component by the grant applicants prior to any funding decisions; and
- require recipients of large grants to submit audited financial information on project costs and revenues, and require all others to submit sufficiently detailed information and support with respect to actual costs incurred to permit meaningful financial analysis.

**Ministry Response:**

*We have developed materials to assess projects. We will strengthen the assessment process for cost estimates, including in-kind costs, in the review and assessment of future projects.*

*Future grant agreements will provide the Province with the option to request audited statements at our discretion. We prefer to maintain this flexibility to request audited statements or additional information.*

## VERIFICATION OF RECIPIENTS' RESOURCES

Grant recipients must contribute their part of the cost of their projects, manage the projects and, in the case of capital projects, be able to fund the ongoing operating expenses once their projects are completed.

In general, we found that there was no evidence that the applicants' abilities to meet these obligations had been assessed.

For example, an organization which applied for a \$1.5 million grant to build a community centre indicated in its jOCA application dated August 30, 1993 that it had \$500,000 in confirmed contributions and committed itself to raising an additional \$407,000 towards the project.

Subsequently, documentation prepared by the lead Ministry in support of the project in November 1993 indicated that the organization had \$500,000 cash on hand and was committed to raising an additional \$571,000. Based on this information, the grant was approved in November 1993, and initial jOCA payments totalling \$839,000 were made in September 1994 and January 1995.

The Ministry did not verify the cash resources of the recipient and, perhaps more importantly, did not evaluate the organization's ability to raise the additional required funds. In fact, at the time of our audit (March 31, 1995) the organization's required contributions had increased to \$1.3 million of which only \$503,000 had actually been raised. As a result, we were advised that as of March 1995, the start of construction has been delayed to June 1996. We noted that approximately \$139,000 of the jOCA advances had been spent, with the balance of \$700,000 invested in term deposits.

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**Recommendation:**

The Ministries should ensure that applicants have the ability to raise the required funds to pay for their portions of the project costs prior to project approval and the advancing of JOCA funds.

**Ministry Response:**

*Applicants are asked to submit evidence of their ability to pay for their share of project costs by providing information such as: fund-raising plans, bank statements, letters of credit/pre-approval of mortgage amounts, debt retirement plans and so on. The evaluation and documentation of this information will be improved.*

## ACQUISITION PROCEDURES

Although grant agreements in Northern Ontario do not explicitly require competitive acquisition procedures, they do require that recipients "exercise prudence" in spending public funds. In contrast, 21 of 31 of the grant agreements we reviewed for southern Ontario required recipients to employ competitive acquisition procedures for goods and services valued over \$25,000.

Nevertheless, we would expect all goods and services over \$25,000 to be acquired competitively to ensure that the best value is received for the funds expended and to ensure that all potential suppliers are dealt with fairly.

However, of a total of 41 project files we examined where competitive acquisition procedures would have been applicable, 35 contained no evidence that goods and services had been acquired competitively. Based on further enquiries, we noted a number of instances where competitive acquisition procedures were not effectively employed. For example:

- a group which received a grant of \$248,000 ignored the requirement to tender contained in the grant contract and paid \$43,200 for a consulting assignment to one of its members;
- a recipient of a \$670,000 capital grant selected the highest bidder for architectural services totalling \$185,000; the Ministry did not require an explanation as to why that bid was considered to represent better overall value than the lowest acceptable bid of \$146,000; and
- the recipient of a \$500,000 grant could not locate any quotes for a \$1.5 million project.

**Recommendation:**

Participating Ministries should ensure that all grant recipients are required to use competitive acquisition procedures for the expenditure of public funds and verify compliance with this requirement on a sample basis.

**Ministry Response:**

*We agree with the recommendation of the Provincial Auditor. The program requires grant recipients to use competitive acquisition procedures. We will communicate and monitor this requirement better.*

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## TIMING OF PAYMENTS

The *jOCA Project Administration Guide* for southern Ontario provides some general disbursement principles. For example, no payment should be made before a grant agreement is signed by both the Province and the recipient; provincial funds should only be disbursed as needed by clients; and situations where provincial funds are advanced long before a project has started should be avoided.

However, our review of project files revealed a number of instances of non-compliance with these general principles.

- three recipients had received payments ranging from \$83,000 to \$375,000 before their agreements were signed;
- to the time of our audit, twelve recipients had received grants and subsequent payments ranging from \$103,000 to \$1.5 million which were made three to fifteen months in advance of being required. On a weighted average basis, \$4.8 million was paid to recipients eight months in advance.

Nine of these twelve recipients are under no obligation to earn interest on the pre-payments and to reduce their future grant requests accordingly.

In addition, we also noted that in March 1994, the Ministry of Economic Development and Trade had requested participating ministries to flow "up front" payments prior to year end in light of the availability of funds and in anticipation of reduced funding in the following year. As a result, we noted that four pre-payments totalling \$2.5 million were made shortly before year end.

### **Recommendation:**

**The Ministries should ensure that payments are not made until:**

- agreements with recipients have been finalized; and
- recipients require the funds to carry out their projects.

### **Ministry Response:**

***We agree with the Provincial Auditor that payments should not be made until agreements with recipients have been finalized. Each Ministry will examine its internal administrative systems to ensure compliance.***

***We have developed disbursement policies for the program. We will ensure that these disbursement policies are better communicated.***

## PROJECT MONITORING

The *Program Administration Guide* for southern Ontario requires Ministry staff to liaise with grant recipients to ensure that projects are moving forward as expeditiously as possible and that work in progress is in compliance with the terms and conditions of the grant agreement.

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Our review of 35 capital project files which had received grant payments found that only three files contained any documentation with respect to monitoring the project's progress, including site visits. We were advised by Ministry staff that, although project progress was routinely monitored, documentation is generally not prepared with respect to a project's status or potential issues or items requiring follow-up.

Due to the lack of such documentation, we could not assess the frequency or extent of project monitoring.

**Recommendation:**

**Participating Ministries should monitor the progress of all jOCA projects on a timely basis and maintain adequate documentation to demonstrate project compliance with applicable terms and conditions.**

***Ministry Response:***

***Ministries do monitor the progress of projects and receive progress reports. We will strengthen documentation of project monitoring and for the completion of projects. As part of our file closure process, a final project report is required, and in most cases, a final site visit is also required.***

# Gasoline, Diesel Fuel and Tobacco Taxes

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3.06

Gasoline, diesel fuel and tobacco taxes are payable under the authority of the *Gasoline Tax Act*, the *Fuel Tax Act* and the *Tobacco Tax Act* respectively. For the 1995 fiscal year, the amount of taxes collected under these three Acts totalled \$2.8 billion or about 8% of the Province's total taxation revenue for the year.

Gasoline tax is levied on gasoline and propane used as transportation fuel and on all fuels used to power aircraft. As of January 1, 1995, the Province taxed gasoline at 14.7¢ per litre, propane at 4.3¢ per litre and aircraft fuel at 2.7¢ per litre. During the 1995 fiscal year, total taxes collected under the *Gasoline Tax Act* were \$1.94 billion with \$1.89 billion coming from taxes on gasoline.

Fuel tax is levied under the *Fuel Tax Act* on diesel fuel used for transportation. As of January 1, 1995, the Province taxed diesel fuel at 14.3¢ per litre. During the 1995 fiscal year, the Ministry collected \$505 million from fuel taxes.

Cigarettes, cigars and cut tobacco are taxed under the *Tobacco Tax Act*. On February 21, 1994, the provincial tax on cigarettes and cut tobacco dropped from 6.5¢ to 1.7¢ per cigarette and per gram of cut tobacco. On February 17, 1995, the Minister announced that he would increase this tax to 2¢ on a date yet to be announced. Cigars continued to be taxed at 45% of their selling price. During the 1995 fiscal year, the Ministry collected \$324 million from tobacco taxes.

The Motor Fuels and Tobacco Tax (MFTT) Branch of the Ministry of Finance has primary responsibility for the administration and collection of gasoline, fuel and tobacco taxes. For fiscal 1995, the MFTT Branch spent \$10 million of which \$7.8 million related to employee payroll costs.

According to Ministry records, the system of using designated collectors to collect gasoline, fuel and tobacco taxes has resulted in over 95% of all gasoline, over 85% of all fuel and over 95% of all tobacco taxes being collected and remitted each month to the Ministry by only 33 gasoline-tax collectors, 15 fuel-tax collectors and 87 tobacco-tax collectors. Dealing with such a limited number of collectors greatly enhances the administrative efficiency with which these taxes can be collected. For instance, at the time of our audit, the MFTT Branch's administrative costs incurred per \$100 of tax collected was about 10¢ for gasoline tax, about \$1 for fuel tax and about 20¢ for tobacco tax.

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## OBJECTIVE AND SCOPE

Our audit objective was to assess whether reasonable procedures were in place to ensure that the Province collects gasoline, fuel and tobacco taxes in a cost-effective manner, on a timely basis and in accordance with statutory requirements.

As part of our audit we interviewed Canada Customs officials at two of the busier Ontario border crossings and United States Customs officials. We met with officials of the Ontario Trucking Association and the Canadian Petroleum Products Institute. We also visited representatives of the Royal Canadian Mounted Police and spoke with the Ontario Provincial Police.

## OVERALL AUDIT OBSERVATIONS

In testifying before the Standing Committee on Finance and Economic Affairs' hearings on the underground economy in October 1993, the Ministry of Finance stated that over the past few years, there has been "no question that the underground economy, at least our sense of the underground economy, has increased."

We concluded that in certain areas more effective enforcement procedures were needed to detect both intentional and unintentional non-compliance with the gasoline and diesel fuel tax statutes. Specifically, although much of the work of the MFTT Branch's desk and field auditors on gasoline and diesel fuel taxes was being carried out in a satisfactory manner, we found too little documentation to determine whether the legitimacy of the millions of dollars worth of non-taxable gasoline and diesel fuel transactions which take place between collectors was being adequately checked. Additionally, we found a number of instances where inspection procedures were inadequate to detect the illegal declaration, use and sale of tax-exempt gasoline and diesel fuel products.

More effective control procedures would not only encourage voluntary compliance, but would also assist the MFTT Branch to better estimate and take action on the potential gasoline and fuel taxes which may be foregone either through inadvertent or deliberate errors on collector returns or through other tax evasion schemes.

In commenting on possible lost tobacco taxes due to the underground economy, witnesses before the Standing Committee's hearings on the underground economy testified that significant quantities of exported cigarettes were being smuggled back into Ontario where they could be sold for half the price of legally taxed cigarettes. The Ministry advised us that while smuggling did result in significant tax losses to Ontario, enforcement against cross-border smuggling is the responsibility of the federal government.

To combat the growing problem of tax-exempt exported cigarettes being smuggled back into Ontario, on February 21, 1994, Ontario's Minister of Finance, following similar action by the federal and Quebec governments, significantly reduced tobacco taxes. As a result of this reduction, we noted that:

- the amount of cigarettes exported to the United States has dropped dramatically since the reduction in tax. According to Statistics Canada, between March and August 1993, exports to the United States were 8.3 billion cigarettes while only 500 million cigarettes

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were exported during the same period in 1994 when the reduced tax rate was in effect; and

- tobacco tax collected declined from \$773 million in the 1994 fiscal year to \$324 million in the 1995 fiscal year, excluding approximately \$35 million in related retail sales tax.

While exported cigarettes had been a major problem area, the Ministry does have a well-controlled system in place to ensure that tobacco taxes owing on products sold to wholesalers and distributors for sale in Ontario are being appropriately remitted to the Ministry.

## DETAILED AUDIT OBSERVATIONS

### 3.06

### GASOLINE AND DIESEL FUEL TAXES

There are 33 designated gasoline-tax collectors and 15 designated fuel-tax collectors. These collectors are mostly large oil companies. Collectors must file tax returns and remit the taxes they collect to the MFTT Branch monthly.

According to the *Gasoline and Fuel Tax Acts* and Regulations, not all gasoline and fuel is taxable. Gasoline and diesel fuel are tax-exempt when they are exported or when they are sold to other tax collectors in Ontario. In addition, diesel fuel is tax-exempt when it is sold to fuel acquisition permit holders, sold as heating fuel or used in unlicensed vehicles or equipment.

The ability to sell gasoline and diesel fuel as either taxable or tax-exempt according to its use creates a risk that a product which is tax-exempt will be sold as a taxable product with the amount received as "tax" becoming an illegal gain for the seller. Accordingly, collectors are required to account for all taxable and tax-exempt gasoline and diesel fuel on their monthly tax returns. These collectors obtain the gasoline or diesel fuel from their own refineries in Ontario, from imports into Ontario or from other collectors in Ontario. In addition, inter-jurisdictional transporters of petroleum products which transport gasoline or fuel into or out of the province must file monthly returns informing the MFTT Branch of the volume of gasoline and fuel transported, its source and its destination.

With this information, the MFTT Branch can account for all gasoline and fuel in the province as it moves from wholesalers to purchasers by cross-checking monthly collector returns with each other and with the monthly inter-jurisdictional transporter returns. The Branch also conducts field audits of diesel fuel- and gasoline-tax collectors to ensure they are complying with the applicable Acts and Regulations. In addition, the Branch has the mandate to conduct inspections at the roadside and at border crossings to verify that fuel and gasoline collectors and consumers are complying with the applicable Acts and Regulations.

### DESK AND FIELD AUDIT PROCEDURES

The Branch has desk auditors responsible for checking all monthly gasoline- and diesel fuel-tax collector returns. A procedures manual details the steps to be followed by the desk auditors. In cases where a desk auditor finds that taxes have been underpaid, an assessment for the unpaid amount is issued. Where auditors note unusual, inconsistent or suspi-

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cious items during their review of gasoline- and fuel-tax collector returns, they highlight them for field audit follow-up.

The Branch also has field auditors responsible for auditing the supporting taxpayer records relating to gasoline- and diesel fuel-tax collector returns. A procedures manual details the steps to be followed by the field auditors during their audits. The Branch attempts to conduct field audits on all gasoline and fuel collectors within the three-year statute of limitations period.

We selected a representative sample of gasoline and diesel fuel collector returns filed during the 1994 fiscal year to determine whether desk and field audit staff were complying with the key procedures as outlined in their procedures manuals. The results of our tests indicated that most of the key procedures were carried out in a satisfactory manner.

However, we found little documentation to indicate that the following transactions relating to gasoline- and fuel-tax collector returns were being satisfactorily audited.

## **SALES AND PURCHASES BETWEEN COLLECTORS**

Transactions between collectors are exempt of tax but must be accounted for separately on the collectors' tax returns. According to the desk and field audit procedures manual, sales and purchases between collectors are to be cross-checked. If the Ministry does not adequately cross-check collector returns, it may fail to detect situations where all tax-exempt fuel or gasoline is not accounted for. This raises the possibility that such gasoline or fuel could then be sold as a taxable product, creating an illegal profit for the seller.

We reviewed in detail a small sample of monthly fuel collector returns, and we noted very little documented evidence that the desk auditors had cross-checked purchases and sales between collectors. We selected a third of these returns to determine whether there were any discrepancies in purchases and sales between collectors and noted that there were significant inconsistencies totalling 8.9 million litres between these returns.

In one case, a fuel-tax collector reported sales in one period of 2.3 million litres of fuel to another collector who reported purchases from the first collector of 4.5 million litres for the same period. The MFTT Branch informed us that in most cases such discrepancies are due to timing differences. For example, one collector will report sales that were made at the end of a reporting period in its return while the purchaser will report this transaction in the next reporting period's return. However, unless such discrepancies are identified and reconciled, there is a significant risk that erroneous transactions will go undetected.

We did note that the gasoline desk auditors had identified discrepancies in purchases and sales between collectors in one third of the gasoline collector returns we sampled. These discrepancies were highlighted for field audit attention although there is no established system to ensure that highlighted items are, in fact, appropriately dealt with. We also noted that in most of these cases, field audit had not followed up on the discrepancies during their subsequent collector audits.

In about half of the sampled gasoline returns, we noted significant discrepancies totalling 225 million litres which had not been identified by desk audit where purchases and sales from one collector did not agree with sales and purchases reported by the corresponding collector.

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In two thirds of the gasoline- and fuel-tax audits we reviewed, there was no evidence that purchases and sales among collectors were cross-checked by field auditors.

Towards the end of our audit fieldwork, the MFTT Branch drafted revised detailed procedures for field audit cross-checking of sales and purchases between collectors.

#### **Recommendation:**

**The Ministry should ensure that all large discrepancies in reported gasoline and fuel transactions between collectors are identified, reconciled and, where necessary, followed up by field audit.**

#### **Ministry Response:**

*Although the identification and reconciliation of transactions between collectors has always been done as part of a field audit, documented evidence has not always been maintained in the audit file.*

*We agree with the recommendation. However, due to the very large number of inter-collector transactions, this would be most cost-effective if done electronically. The feasibility of this will be examined and a funding proposal made, if found reasonable.*

## **GASOLINE AND DIESEL FUEL IMPORTS AND EXPORTS**

Inter-jurisdictional transporters of petroleum products carry diesel fuel and gasoline into and out of the province. These transporters must file monthly returns with the MFTT Branch disclosing the volume of fuel or gasoline transported, its source and destination. According to the desk audit procedures manual, import/export information on the transporters returns should be used to confirm imports and exports on the collector returns. We noted that fuel desk auditors did not compare for consistency the information provided by fuel tax collectors on imports and exports with the information filed on the inter-jurisdictional transporter returns.

We reviewed a sample of gasoline-tax collector returns for fiscal 1994 and found that cross-checking could be only partially performed for about half of them because the collectors had not completed the required import and export schedules. For example, in one case, only 11% of imported gasoline, or 3.9 million litres of the total of 34.8 million litres reported by one collector, could be matched to inter-jurisdictional transporter returns. A collector's understatement of the amount of imported gasoline would directly affect the amount of gasoline the collector needs to account for. We were informed that staff do not generally request missing information from collectors.

The field auditors' procedures manual requires them to verify imports. They do this primarily by cross-checking collector returns to the returns filed by inter-jurisdictional petroleum transporters and registered importers.

In about half of the fuel and gasoline audits we reviewed, we found no documentation of any work performed by field auditors to verify imports reported on collector returns. In

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one third of these cases, desk verifiers had flagged discrepancies between inter-jurisdictional transporter returns and collector returns for follow-up by field audit.

### **Recommendations:**

**The Ministry should ensure that all large discrepancies between imports and exports reported by inter-jurisdictional petroleum transporters and those reported by collectors are identified, reconciled, and, where appropriate, followed up by field audit.**

**When tax collectors do not provide the required information on imports and exports on their returns, the Ministry should request this information and follow up to ensure all requests are complied with.**

### **Ministry Response:**

***We agree with the recommendation. We shall institute a procedure to identify discrepancies which will include a follow-up with collectors who do not provide the required information.***

## **TOBACCO TAXES**

Tobacco products are taxed under the *Tobacco Tax Act*. Tobacco taxes are paid on all tobacco products purchased in Canada except those purchased by foreign diplomats and Native people. Export sales and sales on board ships, airplanes and in duty-free shops are exempt from Ontario tax.

Eighty-seven manufacturers/importers, wholesalers and casual remitters have been designated tobacco-tax collectors. Together they remit 95% of all tobacco-tax revenues with most of this being remitted to the Ministry by wholesalers. Collectors must file tax returns and remit the taxes payable to the Ministry monthly.

## **DESK AND FIELD AUDIT PROCEDURES**

Manufacturers and importers of tobacco products are required to submit monthly sales reports, or "tax memo summaries," to inform the Ministry of monthly purchases by wholesalers. This is an excellent detective control as we found the Ministry was satisfactorily reconciling the purchases reported by the wholesalers on their monthly tax returns to the related sales as reported by the manufacturers and importers on the tax memo summaries. We also noted the desk auditors verified that all required schedules and information were submitted and that they verified the calculation, remittance and timeliness of the net tax due.

The Ministry also conducts inter-provincial audits every two years at the three tobacco manufacturers to ensure that sales to wholesalers are being properly reported on the monthly tax memos.

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## FIELD INSPECTIONS

The MFTT Branch employs inspectors who inspect diesel powered vehicles, petroleum tankwagons, service stations, fuel terminals, petroleum storage facilities and tobacco retailers throughout Ontario. The MFTT Branch's inspection function is divided into an eastern and western region, each headed by an area manager who reports to a senior manager at head office.

MFTT Branch inspection staff devote most of their time to ensuring compliance with the *Fuel Tax Act* as they have found that a greater risk exists with respect to diesel fuel because, unlike gasoline, it can be sold for use in Ontario on a tax-exempt basis. To assist in the control of tax-exempt diesel fuel, the Ministry requires that it be dyed to visually distinguish it from tax-paid, clear fuel and that it contain a colourless chemical marker (furfural) to chemically distinguish it from clear fuel. Under the *Fuel Tax Act*, it is a provincial offence to operate a licensed vehicle with coloured fuel in the running tanks of the vehicle. Unlike diesel fuel, all gasoline sold for use in Ontario is taxable. The only tax-exempt gasoline is that sold for export or sold from one designated collector to another.

Inspections of tobacco retailers are done under the *Tobacco Tax Act*. During the 1994 fiscal year, approximately 2,300 inspections were done to ensure retailers sell only Ontario-marked tax-paid cigarettes.

In April 1994, the Branch initiated an operational review of its field inspection program to assess the program's purpose and its objectives and its efficiency and effectiveness in meeting those objectives. At the conclusion of our audit fieldwork, the Branch was evaluating the results of this operational review and was in the process of making a number of changes to its inspection activities.

## SCHEDULING OF INSPECTIONS

The primary purpose of inspections is to ensure compliance with the *Gasoline, Fuel Tax*, and *Tobacco Acts*. In addition, inspections deter and detect gasoline-, fuel- and tobacco-tax evasion. Tax evaders can easily adjust their activities to escape detection when inspections are conducted in a predictable manner, for example, only during the daytime and never on weekends. Accordingly, the Branch procedures manual indicates that a static or predictable system of duty shifts is not effective or efficient and that inspections should be conducted on an irregular schedule.

We examined inspection time and activity reports for a small sample of inspectors for the 1994 fiscal year and found that:

- three quarters of the inspectors reported working the same hourly time period on a consistent basis. For example, in one territory the inspector routinely worked from 6:00 a.m. to 2:00 p.m.; and
- three quarters of the inspectors did not report working any Saturdays or Sundays during the fiscal year.

We understand that this issue is being addressed as part of the operational review.

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**Recommendation:**

To enhance the ability of the Ministry's inspection activities to detect offenders, the Ministry should conduct a higher proportion of inspections during evenings, early mornings and on weekends.

**Ministry Response:**

*Based on experience and established traffic patterns, inspectors are permitted to use their discretion and judgment to schedule their hours of work. We do agree that inspections should be conducted on a more irregular schedule.*

## **GASOLINE & DIESEL FUEL INSPECTION PROCEDURES**

### **FOLLOW-UP OF RESULTS OF SAMPLES TAKEN DURING VEHICLE INSPECTIONS**

During vehicle inspections, Branch inspectors take fuel samples from vehicle running tanks and visually inspect the fuel to see if it is clear or coloured. Additionally, at the inspector's discretion, a reagent test may be done to determine if the chemical dye marker is present even though the fuel appears clear. If coloured fuel is found in the running tank or the reagent test indicates conclusively the presence of the chemical marker, the inspector issues a ticket to the driver of the vehicle under the *Provincial Offences Act*.

In cases where the inspector suspects but is not certain that the sample has been altered, the inspector will issue a ticket and submit a sample to the Branch's laboratory to determine conclusively whether the dye has been filtered out. If the laboratory's test indicates the sample has been altered, the Branch will proceed with the ticket; otherwise it will be voided. In addition, if the sample has been altered, the MFTT Branch will usually refer the results to the Special Investigations Branch for investigation to determine the ultimate source of the altered fuel and the full extent of tax evasion.

In April 1989, an agreement was signed between the MFTT Branch and the Special Investigations Branch outlining the general arrangements to be followed for referrals of this nature. For example, the Branch must submit the details of all referrals in writing.

For the 1993 and 1994 fiscal years, Branch inspectors submitted approximately 360 fuel samples taken from vehicle running tanks to the laboratory for analysis. In a large number of cases, the Ministry's laboratory analysis confirmed that coloured fuel was present. We selected a number of these to determine if tickets had been issued under the *Provincial Offences Act* and whether the violation had been referred to the Special Investigations Branch. We noted that:

- for 75% of the instances tested, the MFTT Branch could not provide documentation indicating that tickets had been issued; and
- for 40% of the instances tested, the MFTT Branch was not sure whether the sample results had been referred to the Special Investigations Branch for further follow-up. We contacted the Special Investigations Branch staff who informed us that they had no record of having received 75% of these cases and that they did not know whether the cases were related to any of their current investigations of possible tax evasions.

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We understand that the MFTT Branch practice of referring *Fuel Tax Act* violations to the Special Investigations Branch is under review.

#### **Recommendations:**

**In instances where the Ministry's laboratory testing confirms that dye has been removed from coloured diesel fuel or that there has been similar illegal use of diesel fuel, the Ministry should ensure that a ticket for violating the *Fuel Tax Act* is issued.**

**The Ministry should monitor compliance with its policy that all Motor Fuel and Tobacco Tax Branch requests for Special Investigations follow-up be made in writing.**

#### **Ministry Response:**

*The Ministry's practice is to issue a Provincial Offences Act (P.O.A.) ticket wherever dye content exceeds the prescribed amount. The documentation of P.O.A. tickets issued as a result of laboratory testing has been revised to ensure better tracking of these tickets. Since November 1994 all referrals to Special Investigations Branch are in writing in accordance with a new referral and tracking system. A revised Program Administration Letter has tightened up referral procedures for all tax branches.*

#### **FUEL FINGERPRINTING PROGRAM**

The Ministry's laboratory can determine whether dyed fuel has been filtered or bleached by testing for the presence of the chemical marker furfural which should be contained in all coloured, tax-exempt diesel fuel. However, the laboratory cannot determine if the product consists of a non-taxable product combined with a taxable one.

According to the Special Investigations Branch, a current tax-evasion scheme involves the mixing of large quantities of non-taxable petroleum products such as varsol, toluene or naphtha with small quantities of tax-paid gasoline or diesel fuel and selling the mixture as tax-paid gasoline or diesel fuel. The individuals perpetrating this scheme then collect the tax from the purchaser but do not remit it to the Ministry.

In August 1993, in an effort to detect such mixing of petroleum products, the Ministry and the Canadian Petroleum Products Institute (a non-profit industry association) co-operated in a pilot "fuel fingerprinting" program. The Institute developed the program, which enables the chemical make-up (or "fingerprint") of a fuel sample to be matched with its source at the oil company which produced that particular product.

The Ministry agreed to submit fuel samples taken from construction companies, transport companies and retail service stations to a laboratory operated by the Institute. In turn, the Institute agreed to analyze the samples and provide the results to the Ministry at no cost.

During the latter part of 1993 and early 1994, MFTT Branch inspectors took approximately 650 diesel fuel samples from various locations as part of this program. Although this program had no written procedures, we were advised that all samples were to be submitted to the Institute's laboratory for analysis. However, the Branch submitted only 200

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samples to the Institute's laboratory for analysis. Nevertheless, of those samples, 43% were thought to represent illegal fuels because they were too high in toluene and varsol or were other unusual mixes.

By May 1994, the MFTT Branch had sent the results of the illegal samples found by the Institute's laboratory to the Special Investigations Branch. At the conclusion of our audit fieldwork, the Special Investigations Branch was following up on these samples in an attempt to track down the suppliers of the suspected illegal products.

The remaining 450 diesel fuel samples were tested by the Ministry's laboratory without the benefit of the fuel fingerprinting program, and the Ministry determined that, based on its testing, only 4% were illegal fuels which had been dye-filtered or otherwise altered. Senior Branch staff acknowledged that according to the agreement with the Institute all samples should have been submitted to the Institute for analysis.

The inspectors also took 272 gasoline samples during the period August 9 to December 10, 1993 from various sources such as contractors, trucking firms, independent service stations and major gas stations. The Institute's laboratory analyzed these samples and determined that only one of the 272 samples was found to be sufficiently abnormal to warrant further investigation.

In August 1994, the Branch issued draft procedures to provide better guidance to its inspectors as to when samples should be submitted to the Institute for testing as part of the fuel fingerprinting program.

While we commend the MFTT Branch for participating in this cost-effective program aimed at identifying suppliers of illegal fuels, the Branch will need to actively monitor the carrying-out of the revised procedures to ensure that samples are appropriately submitted to the Institute laboratory for the required testing.

## **TANKWAGON INSPECTIONS AT BORDERS**

It is important that the inspectors take fuel and gasoline samples at the borders to detect any misdeclaration of imports and exports. Without such sampling and physical inspection of petroleum tankwagon contents, there is a significant risk that tax evasion schemes involving misdeclaration of petroleum products will go undetected.

In our 1988 audit of the MFTT Branch, we recommended that the Branch make greater use of its inspectors to monitor fuel exports at the borders. The Branch indicated in their response to our report that they would monitor fuel exports at border-crossing points.

Our interviews with the provincial inspectors responsible for two of the busiest border crossings indicated that they had not conducted any inspections of either exports or imports in tankwagons at these border-crossings during the past year. Further, at the time of our visits to the border crossings, we noted that, although inspection of petroleum products rests with the Province, Branch inspection procedures did not require inspectors to conduct any periodic inspections at border crossings for either imports or exports.

We also met with Canada Customs officials at these two border crossings and were informed that they have neither the facilities nor the training to take samples of tankwagon contents to ensure there is no misdeclaration of petroleum products imported into Ontario. These officials have no involvement with exports into the United States.

We were informed by the Branch that while inspections were not being currently undertaken at certain border crossings for reasons of safety, inspections of imports sometimes take place no more than five kilometres inside the border. However, to be fully effective, inspections must be done close enough to the border so that all tankwagons pass through the inspection sites without being able to use alternative routes to by-pass the checkpoint once they cross the border.

In August 1994, the Branch issued a draft procedure requiring that fuel samples be taken from tankwagons to detect any misdeclaration of imports and exports.

#### **Recommendation:**

**The Branch should amend their new draft procedure to require their inspectors to inspect petroleum tankwagons at border crossings to ensure imports and exports are being properly declared.**

#### **Ministry Response:**

*Border crossings are the responsibility of Canada Customs. Under the Memorandum of Understanding on the Underground Economy signed with Revenue Canada, the Ministry has offered co-operation in setting up a Canada Customs inspection program to verify the declared cargo of tankwagons crossing from the U.S. into Ontario. In addition, we shall contact neighbouring jurisdictions to determine the feasibility of co-operation in the verification of exports.*

*As a result of our operational review, we believe that another effective and efficient method to detect improper declarations is to examine the lists of import entries, compiled by Canada Customs, for suspicious activity. Rather than inspectors randomly stopping trucks at border crossings, we provide leads of potential tax evasion to the Special Investigations Branch and to our inspectors. Initial results have been positive, and we shall continue with the periodic monitoring of all imports.*

## **IMPACT OF REDUCTION IN TOBACCO TAX RATE**

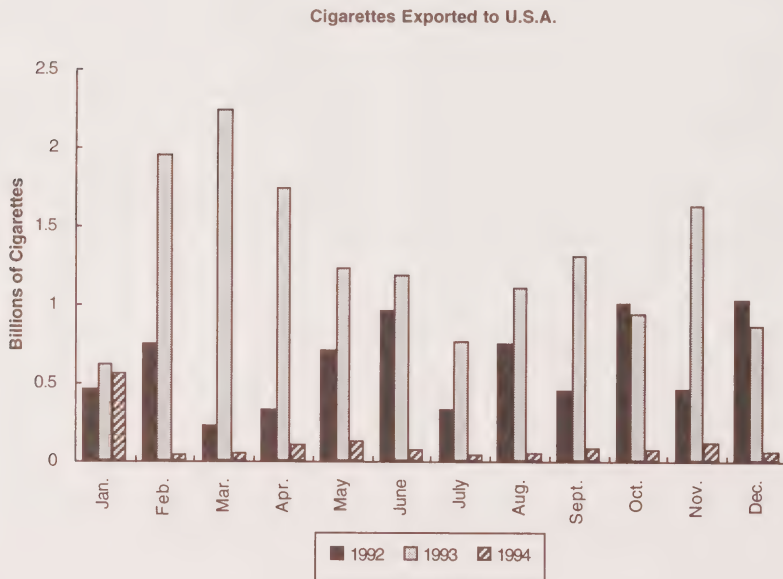
We were advised by Ministry of Finance legal staff that under the Canadian Constitution, the Province is prohibited from levying tax on commodities such as tobacco products which are exported to other provinces or other countries. Accordingly, exports of cigarettes and other tobacco products are tax-exempt. On April 30, 1991, the Province increased the tax on cigarettes from 4.83¢ to 6.5¢. After this tax increase, according to Statistics Canada, the shipments of exported cigarettes increased from 2.6 billion during 1990 to 6.5 billion during 1991. By 1993, export shipments had increased to 17.7 billion cigarettes for the year.

In testimony before the Standing Committee on Finance and Economic Affairs regarding the underground economy, witnesses stated that large quantities of cigarettes were being exported tax-free to the United States and then smuggled back into Ontario. A spokesperson for the Ontario Provincial Police told the Committee that an estimated 50,000 cartons of cigarettes crossed the St. Lawrence River from the United States into the Cornwall area every day. Once in Ontario, they could be sold at less than half the price of legally taxed cigarettes.

On February 8, 1994, the Prime Minister of Canada announced in the House of Commons that in order to put smuggling networks out of business, the federal government had decided to lower the excise tax on cigarettes by \$5 a carton and would match dollar for dollar any provincial tax reduction above \$5 per carton to a maximum of \$10 per carton. In his announcement, the Prime Minister referred to the growing smuggling problem in Ontario and noted that 35% of cigarettes sold in Ontario were contraband. Immediately after the Prime Minister's announcement, Quebec also lowered its tobacco tax rate.

On February 21, 1994, Ontario's Minister of Finance announced that because of the decisions made by the federal government and Quebec, Ontario was forced to follow suit and was reluctantly reducing its tobacco tax rate from 6.5¢ per cigarette to 1.7¢. As a result of this reduction we noted that tobacco tax collected declined from \$773 million in the 1994 fiscal year to \$324 million in 1995 fiscal year excluding approximately \$35 million in related retail sales tax.

As indicated in the following chart, we noted that the amount of cigarettes exported to the United States has dropped dramatically since the reduction in tax. For example, according to Statistics Canada, between March and August 1993, exports to the United States were 8.3 billion cigarettes while only 500 million were exported during the same period in 1994 when the reduced tax rate was in effect.



*Source: Statistics Canada*

More recently, on February 17, 1995, the Minister of Finance announced that Ontario would be restoring part of its tobacco tax in line with increases announced simultaneously by the Federal and Quebec governments.

## ELECTRONIC DATA EXCHANGE

Currently, gasoline, diesel fuel and tobacco tax collectors remit monthly returns to the Ministry along with numerous detailed schedules supporting the figures on those returns. Gasoline- and diesel fuel-tax returns are particularly voluminous. Certain key information from the returns and the supporting schedules is then input into the gasoline, diesel fuel and tobacco tax databases. The returns and all the supporting detailed schedules are then stored in files and transferred to a file room. During our audit we noted that, at times, some of the monthly collector returns could not be easily located.

Many organizations are turning to sharing information and data with business partners through electronic data interchange. In essence, information is not exchanged on paper but is sent electronically from one organization's computer to another. We believe this alternative warrants consideration by the Ministry. Some of the advantages would include:

- an enhanced ability to detect inconsistencies in information reported on tax collector returns especially in the area of gasoline and diesel fuel imports, exports and other sales of tax-exempt product;
- more timely exchange of information;
- administrative cost savings, for example, through the elimination of data input requirements; and
- the ability of field audit to analyze a comprehensive information base for each taxpayer prior to the actual field visit, thereby providing for a more focused and efficient audit.

While such a system would be "leading edge," we are aware of at least one jurisdiction in North America that has implemented an electronic reporting system for tax gasoline and diesel fuel products. Given the significant resources that many of the larger collectors invest in producing monthly tax and information returns, we think it likely they would be willing to discuss the possibility of jointly developing an electronic data interchange reporting system.

### **Recommendation:**

**The Ministry should discuss with its taxpayer communities the feasibility of changing from a paper-based tax return reporting system to one based on electronic data interchange.**

### **Ministry Response:**

***This idea is worth exploration, but the cost, both for business and the Ministry, will no doubt be a significant factor.***

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## EFFECTIVENESS MEASURES

The MFTT Branch's objective is to minimize tax avoidance and maximize voluntary compliance with statutory requirements through the development of appropriate administrative mechanisms, communications, compliance activities and sanctions so that revenue due the Province is appropriately collected and accounted for.

MFTT Branch management information reports provide statistics on a number of operational results indicators such as the dollar amount of assessments attributable to desk verification procedures, assessments resulting from field audits and the total number of tickets issued as a result of inspection activities.

However, minimal information is provided by the Branch on its success in collecting all the tax revenues it is entitled to. While some factors affecting voluntary compliance, such as the rate of tax, are beyond the Branch's control, most Branch activities, such as the degree of desk verification and the number and type of audits and inspections carried out, do have a direct impact on encouraging voluntary compliance.

One indicator of the degree of voluntary compliance is the size of the underground economy relating to gasoline, diesel fuel and tobacco taxes. Over time, this could provide an indication of the impact Branch activities are having on the size of underground economy and the potential revenue loss associated with it. Although the Special Investigations Branch has recognized that millions of dollars are lost through fuel-tax evasion by several known groups, no formal attempt has been made to estimate the possible extent of tax evasion.

In October 1993, in testimony before the Standing Committee on Finance and Economic Affairs during its investigation into the underground economy, the Ministry's Office of Economic Policy advised the Committee that:

*We will not be able to give you exact numbers on either the size of the underground economy or the potential revenue loss associated with that. We've done extensive research in this area. The best of our capabilities are not showing up good hard numbers on these things, simply reflecting the fact that this stuff is hidden.*

The Committee's February 1994 Report on the Underground Economy in Ontario, 1993/94 recommended that the Ministry be encouraged to conduct research into the underground economy and suggested that areas of study could include compliance, enforcement, sector by sector analyses and audits.

In discussing the extent of tax evasion with the MFTT Branch, we were advised that estimating the size of the underground economy was primarily the responsibility of the Ministry's Tax Policy Branch as well as the Macroeconomics Analysis and Policy Branch.

We discussed this with both Branches and were informed that their mandates were to investigate the role taxes play in the underground economy, the fiscal implications of tax evasion and the revenue potential of various taxes in the current economic climate.

With respect to tobacco taxes, however, the Tax Policy Branch estimated in January 1994 that the potential tobacco tax and associated retail sales tax revenue losses due to tobacco smuggling were about \$450 million in the 1994 fiscal year. The Branch also estimated that illegal tobacco had accounted for about 30% of the total tobacco market (legal and illegal

sales) in Ontario. However, according to the Branch, since the February 1994 tax reduction, a number of indicators suggested that there has been a substantial shift in tobacco sales from the illegitimate market to the legitimate market. They now estimate the illegitimate tobacco market in fiscal 1995 to be between 5% and 8% of the total tobacco market with the related potential foregone tobacco tax and retail sales tax revenue to be between \$25 and \$40 million.

With respect to gasoline and diesel fuel taxes, the Tax Policy Branch advised us that the relative magnitude of the problem of unremitted taxes remains in the order of 2% to 4% of the total tax collected, on the basis of annual revenue forecasts. In ongoing reviews of the performance of gasoline and diesel fuel tax revenues, there has been no indication that activities to defraud the Ontario government have expanded significantly since 1988. The Branch further advised us that this was a "soft" estimate.

The Macroeconomics Analysis and Policy Branch advised us that it has been involved in attempts to estimate in a general way the size of the underground economy. However, these estimates were done using techniques that give a rough idea of the aggregate size of the underground economy without providing details of the individual components.

However, aside from the size of the underground economy and the associated foregone tax revenues, we believe there are other indicators available to the MFTT Branch which might, over time, provide information about the impact the Branch's activities are having in discouraging tax avoidance. Two possible indicators to consider are:

- statistics on the number of illegal samples of gasoline and fuel detected as a percentage of the number of total samples tested each month. This could apply to reagent tests, laboratory-analyzed samples and samples tested under the fuel fingerprinting program; and
- the number of tickets issued according to each type of inspection activity.

#### **Recommendation:**

**The Ministry should measure and report trends and statistical indicators such as the percentage of illegal samples being detected each month as this would provide, over time, additional information on the effectiveness of the Ministry's compliance and enforcement activities.**

#### **Ministry Response:**

***We are in the process of developing a management information system that will measure the effectiveness of our compliance and enforcement activities. The measurement and reporting on trends and statistical indicators will be part of that information system.***

# Retail Sales Tax

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The Retail Sales Tax Branch of the Ministry of Finance has primary responsibility for the administration and enforcement of the *Retail Sales Tax Act*. For the 1994/95 fiscal year, the Province collected \$9 billion of retail sales tax (RST), comprising about 27% of the Province's total taxation revenue for the year. The Act imposes an 8% tax on most retail sales. Vendors are required to collect the tax from the purchasers of goods and services and remit the tax collected to the Ministry. There are approximately 317,000 registered vendors located throughout Ontario.

The Branch's head office is in Oshawa and there are eight field offices located in three designated regions throughout the province. For 1994/95, the Branch's expenditures were approximately \$24 million, of which \$19.5 million related to salaries and benefits.

All vendors selling taxable merchandise must be registered and display an RST permit. Registered vendors are required to complete and forward an RST remittance form or return, along with a cheque for the sales tax collected on a monthly, bimonthly, quarterly or semiannual basis depending on the amount of taxes a vendor collects over a six-month period. Vendors can mail their returns with their payment to the Ministry's Taxation Data Centre (TDC) in Oshawa or to any one of the eight field offices. As well, they can submit their returns and payments to any of the major financial institutions which deposit the payments directly to the Ministry's bank account and forward the returns to the TDC.

The Branch's objective is to collect RST in a way that will encourage voluntary compliance while enforcing compliance with the law and maintaining public confidence in the fairness of the tax system. The Branch takes a twofold approach to achieving this objective. It offers extensive taxpayer support services to promote voluntary compliance by the vendor community. Secondly, the Ministry recognizes that a certain level of vendor audits is necessary both to determine whether vendors have remitted all taxes owed to the Province and to discourage tax evasion.

Most Branch staff work in two major areas. There are approximately 200 staff involved in audit and refund-related activities, of whom 150 conduct audits at the taxpayers' places of business to ensure that all relevant taxes have been remitted to the Ministry. In addition, there are 95 service staff who deal with taxpayers in person, by mail and by telephone. They register vendors, respond to all inquiries from vendors and the public, and generally work with the vendor community to promote voluntary compliance and ensure that the tax roll is kept up to date.

Branch operations are supported by a large computer-based system which maintains the vendor tax roll, records payments, triggers collection activities for delinquent accounts, and is a source of information for the selection of vendors for audit. The tax roll consists of 229,000 active vendors and another 88,000 vendors who have filed nil returns or no return at all. Currently, each major tax administered by the Ministry has its own tax database.

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However, there is currently a Ministry-wide "integrated tax administration system" (ITAS) initiative under way. The purpose of the ITAS is to create a single taxpayer-based computerized tax roll for tax programs administered by the Ministry. RST is scheduled to be transferred to ITAS in early 1997.

Other branches within the Ministry have certain administration, collection and enforcement responsibilities for RST. The Special Investigations Branch handles the more serious or complex cases of suspected non-compliance, the Collections Branch pursues outstanding tax amounts owed by vendors, the Taxation Data Centre processes payments and tax returns, and the Tax Appeals Branch handles objections filed by taxpayers.

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## OBJECTIVE AND SCOPE

Our audit objective was to assess whether reasonable procedures were in place to ensure that the Ministry collects the proper amount of RST in a timely manner and in accordance with statutory requirements.

Our audit focused on the Retail Sales Tax Branch and was conducted primarily at head office and at three of the Branch's eight field offices. We also conducted work at the Special Investigations and Collections Branches and at the Taxation Data Centre and reviewed any relevant work of the Ministry's Audit Services Branch.

## OVERALL AUDIT OBSERVATIONS

In October 1993, the Standing Committee on Finance and Economic Affairs conducted hearings on the underground economy. The Committee defined the underground economy as being:

*...any intentional non-compliance with tax statutes, ranging from late and non-payment of reported tax liabilities at one end of the spectrum to deliberate tax evasion at the other extreme.*

It was the consensus of witnesses that the underground economy is a major problem and a growing one, particularly since the introduction of the Goods and Services Tax in 1991. The Ministry of Finance testified that over the past few years there has been "no question that the underground economy, at least our sense of the underground economy, has increased." During our audit, the Ministry indicated that they were unable to determine hard numbers on the potential amount of RST lost due to the underground economy.

We concluded that the Branch can and should take more vigorous steps to reduce the tax gap and implement additional measures to minimize the loss of taxes through the underground economy. Such measures need to include the identification of contributing factors to the tax gap and the focusing of enforcement efforts on those factors.

In our 1985 and 1989 audit reports, we expressed concerns that the level of audit coverage was insufficient to discourage tax evasion. This situation has deteriorated even further. Our review of the percentage of active vendors currently being audited indicated that

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audit coverage levels have declined significantly since 1985 and 1989. In particular, we question whether the present low level of audit coverage on small vendors—who, in total, contribute 50% of the total RST received by the Ministry—is adequate to enforce compliance with the law and maintain public confidence in the fairness of the tax system. As well, the Branch should be using better information and improved risk assessment techniques to select vendors for audit.

The Ministry's procedures, including internal audit work, were adequate to ensure that RST remittances actually received, totalling \$9 billion in 1994/95, were being deposited promptly and credited to the proper vendor's account, and that the related 1.5 million vendor tax returns were being processed accurately and on a timely basis.

## DETAILED AUDIT OBSERVATIONS

### THE TAX GAP

#### THE UNDERGROUND ECONOMY

As with all taxes, there is a certain amount of retail sales tax which is due to the Province but which never gets remitted. Such shortfalls are commonly referred to as the tax gap. The underground economy is a major contributor to the tax gap.

In October 1993, the Standing Committee on Finance and Economic Affairs conducted hearings on the underground economy in an attempt to come to grips with the complexities of the issue. In February 1994, the Committee tabled a report in the Legislature which summarized the Committee's deliberations and recommendations. The report stated that there was consensus among the witnesses who testified before the Committee that the size of the underground economy had increased significantly in recent years as a percentage of the gross domestic product. The report went on to say:

*In the opinion of witnesses, the introduction of the 7% Goods and Services Tax in January 1991 was the straw that broke the camel's back, providing many with the extra incentive to participate in the underground economy.*

In the Ministry of Finance's testimony before the Committee, the Ministry indicated that although it had done extensive research on the underground economy, it was unable to provide good, hard numbers on the potential revenue losses associated with it.

With respect to RST, the tax gap results primarily from two sources:

- registered vendors deliberately under-remitting taxes owing; and
- unregistered vendors selling taxable items but never remitting the collected tax to the Ministry or those vendors who do not even charge tax on the sale of taxable items.

In discussing the specific work done by the Ministry to determine the potential revenue loss associated with the tax gap, we confirmed that no hard numbers on the potential amount of unremitted RST were available. However, given the testimony of witnesses before the Standing Committee, including the Ministry of Finance, that the underground economy was increasing, and that there was linkage of this to the introduction of the

Goods and Services Tax (GST), it is not unreasonable to assume that the level of unremitted RST and therefore the tax gap has, if anything, increased over the last few years.

While we acknowledge that estimating the amount of unremitted RST is very difficult, we believe there are statistics available to the Branch to assist them in targeting areas for more vigorous service and enforcement activities directed at reducing the tax gap. For instance, the Branch could analyze:

- the number of non-registered vendors identified by service officers;
- the RST recovered per audit hour segregated by size and possibly even by type of vendor; and
- the number of assessments issued as a percentage of the number of audits done by type of vendor.

Additionally, we noted that one of the recommendations in the Standing Committee's report on the underground economy was that the Ministry be encouraged to conduct further research into the underground economy. It recommended that areas of study could include compliance, enforcement, sector-by-sector analyses and audits.

#### **Recommendation:**

**The Ministry should conduct additional research into the underground economy and use the results to focus its efforts on reducing the tax gap.**

#### **Ministry Response:**

*We agree in principle. Our 1994 Memorandum of Understanding with Revenue Canada on the underground economy includes this objective. When the Retail Sales Tax migrates to our new computer system, management information system development is planned following initial implementation. Management information system performance indicators will include the type of statistics suggested in your Report.*

## **CROSS-REFERENCING INFORMATION FROM OTHER SOURCES**

One of the recommendations in the February 1994 report of the Standing Committee on Finance and Economic Affairs on the underground economy in Ontario was that governments at all levels co-operate to the greatest extent possible in sharing information considered essential to controlling the underground economy.

In October 1994, the Ministry of Finance and Revenue Canada, Customs, Excise and Taxation signed a Memorandum of Understanding on enhanced co-operation with respect to the underground economy, tax evasion and smuggling. The objectives of this agreement were:

- to optimize the use of resources;
- to reduce overlap and duplication in activities directed towards the underground economy, tax evasion and smuggling; and
- to share knowledge and expertise.

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We were informed by the Ministry that it was in the process of finalizing an agreement with Revenue Canada, Customs, Excise and Taxation to compare tax roll and registration information between GST and RST in order to identify business operators who are not registered on the respective tax rolls. In addition, this agreement will permit the exchange of audit information including audit plans relating to large taxpayers in Ontario and access to working papers and results of audit activity undertaken.

In June 1994, the Branch commenced a project of having summer students compare retail businesses from the Ministry of Finance's property tax assessment database against the RST vendor database to identify possible RST non-registrants. By May 1995, the Branch was preparing a report which analyzed the results of this project.

One of the recommendations in the Standing Committee of Finance and Economic Affairs report on the underground economy was that enforcement/compliance might benefit from the use of matched and cross-referenced data files.

#### **Recommendation:**

**To identify non-registrants as well as vendors who may be under-remitting retail sales tax, the Ministry should compare its retail sales tax database with its other taxation databases and with other government databases such as the Ministry of Consumer and Commercial Relations' business registration database.**

#### **Ministry Response:**

*We agree. As noted in the Report, the Ministry does have database matching plans.*

## **AUDIT**

Audits have a twofold impact on vendors. The immediate impact on the vendor relates to any additional taxes that must be paid if an assessment resulting from the audit is issued. Secondly, and of equal importance, is the awareness in the vendor community that audits are being conducted. This awareness serves to encourage compliance.

For audit purposes, the Branch allocates all active vendors into one of three categories as indicated in the following chart.

<b>Audit Category</b>	<b>Annual Revenue (\$ millions)</b>	<b>O R If Annual Tax Remitted</b>
Large Vendor	Over \$200	Over \$1,000,000
Medium Vendor	\$30-\$200	\$200,000-\$1,000,000
Small Vendor	Up to \$30	Up to \$200,000

Each year, the three regional audit managers propose an audit plan indicating the number of audits to be completed and the total of expected assessments from the field offices in

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their region. These plans are reviewed by head office and incorporated into the audit section annual plan.

To assist the regional audit managers in preparing their plan, head office periodically provides each regional audit manager with an updated list of the vendors located in their respective regions. Branch policy requires that large and medium vendors be audited every four years, while the number of small vendors audited depends on a number of factors such as the availability of resources.

## MANAGEMENT INFORMATION SYSTEM

To facilitate the selection of audits, a computerized information system, called BASYS, allows managers to group vendors into one of 231 industry profile codes. This grouping enables managers to compare the taxes remitted by one vendor with the taxes remitted by other vendors with the same profile code and to consider for audit those vendors whose remittances are significantly lower than the average for their group.

There is other information that would be useful to audit managers in selecting high potential vendors for audit, but this information is not routinely reported by the BASYS computer system. For instance, the following information is not produced by BASYS:

- the last time a vendor was audited or the amount of the previous assessment, unless the vendor has been audited or assessed in the last four years; and
- the identification of vendors who have filed nil returns or have not filed a return for a long period of time.

Since this information is not available, we performed additional computer-assisted audit work to extract certain information from the BASYS database. This work indicated that there were approximately 88,000 registered vendors in fiscal 1993/94 who filed nil returns or did not file any return at all.

Our discussion with a number of audit managers indicated that they would find information of this nature useful in identifying "high-risk" vendors for audit, but they generally could not take such information into consideration as it was not routinely reported. However, most managers indicated that they did consider such information as those vendors whose remittances were significantly lower than the average for their profile code group in making their selection.

The present BASYS computer system is being replaced by the new ITAS computer system which will provide a single taxpayer-based computerized tax roll for all tax programs administered by the Ministry. RST will be incorporated into the new ITAS system in early 1997.

### Recommendation:

**The Ministry should ensure that all information needed to facilitate the selection for audit of high-risk vendors is considered in the development of its new integrated taxpayer computer system. Once this information is available, the Retail Sales Tax Branch should revise its audit selection assessment criteria to take it into account.**

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**Ministry Response:**

***We agree with the recommendation.***

***Improvements in file selection are planned as an integral part of the new system.***

## **AUDIT COVERAGE**

Given that the purpose of audits is not only to verify that individual vendors have applied the legislation correctly and remitted all taxes owing but also to encourage voluntary compliance in the vendor community, it is important that an adequate level of audit coverage be maintained each year.

In our previous audits conducted in 1985 and 1989, we expressed concerns as to whether the number of vendors being audited each year was sufficient to meet management's objective of encouraging voluntary compliance. Our review of the audit coverage since 1988/89 indicated that although the number of auditors has remained relatively constant since 1989, the number of audits conducted has decreased by 21%, while the number of active vendors has increased by almost 10%. As a result, the audit coverage as a percentage of active vendors has decreased by about 27% since 1989 and about 33% since 1985. We also noted that, while the number of audits has decreased since 1989, the additional taxes generated per audit hour have increased by 48%, from \$315 in 1988/89 to \$466 in 1994/95.

Given the significant decrease in the audit coverage of active vendors since 1989, we analyzed the coverage by size of vendor—large, medium and small—to determine how the decline related to each category.

### **LARGE AND MEDIUM VENDORS**

During 1994/95, approximately 800 large vendors remitted, in total, approximately 25% of the total RST received by the Ministry. As well, the 3,300 medium-size vendors also remitted about 25% of the total RST received by the Ministry.

According to the *RST Audit Handbook*, all large and medium vendors are to be audited every four years. The Ministry's rationale for this is that the *Retail Sales Tax Act* only allows the Ministry to assess unpaid taxes for the four previous years, therefore unpaid taxes older than four years become "statute barred" unless the Ministry can prove tax evasion has taken place.

We reviewed the audit coverage of large vendors for the four-year period ending March 31, 1995 and found that only 384 of the 800 large vendors, or 48%, were audited during this period. One office had not audited four large vendors for at least the last eight years, even though each of two vendors had annual sales in excess of \$500 million or had remitted more than \$2 million in taxes annually. At the same time, another office had recently audited many large vendors with either annual sales of less than \$300 million, or less than \$1.5 million annually in remitted taxes.

The reduction in the audit coverage of large vendors resulted from the implementation of a consultant's recommendation made in 1991 that the RST Branch reduce the number of levels of field auditors from three levels to two. In early 1992, the Branch began phasing

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out, through attrition, that level of auditors qualified to audit or supervise the audits of large vendors.

By 1994, only three such auditors remained and only three of the eight field offices had auditors on staff who could audit or supervise the audits of large vendors. We were informed that at this point, it became feasible to begin to formally restructure RST audit categories around two levels of auditor.

With respect to medium vendors, we found that the eight field offices had generally audited all medium vendors at least once during the past four years.

During fiscal 1994/95, the Branch audited 955 medium vendors, with 762 or about 80% resulting in an assessment, and the other 20% resulting in a nil assessment. We selected a sample of medium vendors whose audits resulted in nil assessments during fiscal 1993/94, and compared these assessments with the results of the previous audits on the same vendors. We noted that in a significant number of cases the previous audit had also resulted in a relatively low recovery rate per audit hour.

While we acknowledge that it was the Branch's policy to audit medium vendors every four years, we question the need to routinely audit those lower-risk vendors who received a nil or minimal assessment on the last audit.

As previously discussed, the Branch has recently made several changes to its audit classification levels and informed us that these changes were made to ensure that all large and medium vendors receive appropriate audit coverage. As well, the groupings of vendors into large, medium and small categories for audit purposes has also been revised. As these changes are in the process of being implemented, the success of the planned changes is, as yet, indeterminable.

Notwithstanding the above, we believe that in order to use audit resources in a more productive manner, a risk assessment should be conducted on all vendors before they are selected for audit.

#### **Recommendation:**

**The Branch should formalize, document and implement appropriate risk-based criteria for selecting large- and medium-sized vendors for audit. Audit files should contain the rationale supporting the selection of such vendors for audit.**

#### **Ministry Response:**

***We agree with the recommendation.***

***The Branch is currently developing standardized risk-based criteria for use in selecting large and medium-sized vendors for audit.***

#### **SMALL VENDORS**

During fiscal 1994/95, the 225,000 active small vendors remitted approximately 50% of the total RST received by the Ministry.

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In our 1989 report, we reported that the coverage of active small vendors was insufficient to encourage compliance. Our review of the audit coverage of small vendors since our previous report indicated that, while the active vendor population has increased by almost 13%, the number of audits has decreased by 22%. As a result, the audit coverage of small vendors has decreased by 32% since 1988/89.

We also noted that the average additional tax assessed per audit hour on these vendors has increased by 116% from \$188 per hour in 1988/89 to \$407 in 1994/95. Such an increase would tend to support the concerns of the Standing Committee on Finance and Economic Affairs about the apparent growth in the underground economy in recent years. In light of this, and the decline in small vendor audit coverage over the last six years, we question whether the present low level of small vendor audit coverage is sufficient to enforce compliance with the law and maintain public confidence in the fairness of the tax system.

### **Recommendation:**

**To more effectively enforce compliance with the law by the small vendor community and detect unpaid taxes owing to the Province, the Ministry should significantly increase the audit coverage of small vendors.**

### **Ministry Response:**

*As noted in the Report, retail sales tax audit coverage is a blend of selection for expected dollar recoveries and selection from the wider vendor population with the aim of promoting voluntary compliance with the statute. Finding the most effective mixture of audits is an art rather than a science—there is no magic formula.*

*However, increasing audit recovery (per small vendor case) as audit coverage fell, does tend to indicate erosion of voluntary compliance, in the absence of other quantifiable factors, such as improvements in audit techniques and more effective file selection. We therefore agree that an increase in small vendor audit coverage is desirable to improve overall voluntary compliance. The Ministry will endeavour to increase audit resources, while mindful of the current constraint environment and the government's downsizing initiative.*

## **AUDIT TESTING**

The *Audit Handbook* requires that some initial testing be done on all audits in four areas—sales, purchases, capital transactions and own-use transactions—to assess the potential for tax liability. If the auditor determines that tax is owed to the Ministry, the auditor will calculate the amount and issue an assessment to the vendor. The auditors generally use laptop computers to facilitate the completion of their audits. For example, a computer program outlines the standard areas to be considered for testing and outlines the audit procedures to be used.

We selected a sample of audits completed during 1993/94 and 1994/95 covering the three offices we visited and noted that generally all four areas were being satisfactorily tested and that assessments raised were properly calculated and supported.

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## REVENUE AND RETURNS

### PROCESSING AND CONTROL PROCEDURES

During fiscal 1993/94, vendors submitted 675,000 returns (45% of the total) to the Taxation Data Centre (TDC), 675,000 returns (45% of the total) to financial institutions and 150,000 returns (10% of the total) to the field offices.

All payments received by financial institutions are deposited directly in the Ministry's bank account, while the returns are forwarded to the TDC for processing. The field offices send all returns and related cheques to the TDC for processing and deposit of the cheques. On a monthly basis, TDC reconciles the revenue recorded in its database with the deposits made to the Ministry's bank account.

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The Audit Services Branch audits the TDC operations annually. The objective of this audit is to examine and evaluate the systems of financial control for adequacy and effectiveness, and to verify the accuracy of revenue reported by the Ministry. In their previous three audit reports, the Branch concluded that revenue processing was accurate, management practices were effective and the system of financial controls was effective. Our review of their work supported their conclusions and their work allowed us to reduce our required work relating to revenue and returns processing.

We did conduct audit work which confirmed that the information on the returns was being entered into the database accurately and on a timely basis, that the key reconciliations were being satisfactorily performed and that the funds were being deposited promptly.

# Land Ambulance Services

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The *Ambulance Act* governs and regulates the licensing and operations of ambulance services in Ontario. The Act states that only ambulance services licensed by the Ministry may operate in the province. The Act and its regulations specify the terms and conditions for licensing ambulance services, the qualifications required for ambulance attendants and dispatchers, vehicle and equipment standards, reporting requirements for ambulance services and general management practices. The Act also permits the Minister to appoint inspectors of ambulance services.

Operating under the Act, the objectives of the Ministry of Health's Emergency Health Services Activity are:

- to reduce death, disability and suffering due to sudden illness or injury; and
- to provide safe and efficient medical transportation for non-emergency patients.

In 1993/94, land ambulances accounted for approximately 90% of the \$289 million spent on the Emergency Health Services Activity.

At the time of our audit, there were 166 ambulance services in Ontario. Approximately two thirds of the services were operated by hospitals and private companies. The remainder were operated by volunteers, municipalities or the Ministry. The activities of ambulance services, including most of the dispatching, are co-ordinated by 21 central ambulance communication centres located throughout the province. The land ambulance system employs nearly 5,000 ambulance attendants and dispatchers and responds to about 1.3 million calls per year.

With the exception of Metropolitan Toronto, the Ministry funds 100% of all ambulance operations in the province, determines staffing levels, owns all vehicles and owns or controls all central ambulance communication centres. In 1993/94, the Ministry provided approximately \$35 million to Metropolitan Toronto, or approximately 50% of the cost of operating its ambulance service. The remaining 50% was funded by the municipality.

In 1991, the Ministry commissioned an Emergency Medical Services Review to provide advice on the structure and governance of the emergency health system, labour relations, human resource and service issues. The unique funding and operating arrangements with Metropolitan Toronto resulted in it being excluded from that review. Relevant recommendations made in the resulting report and action taken by the Ministry are mentioned in various sections of our report.

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## OBJECTIVES AND SCOPE

The objectives of our audit of land ambulance services were to assess:

- whether program goals were clearly defined and whether performance was measured and reported;
- whether the Ministry ensured that resources were managed with due regard for economy and efficiency; and
- whether monitoring procedures were in place to ensure ambulance services complied with applicable legislation and policies.

In conducting our audit, we reviewed the operations of the Ministry's Emergency Health Services Branch head office, visited three of its six regional offices and reviewed any relevant work of the Ministry's Audit Branch. We also visited a number of central ambulance communication centres and ambulance stations to obtain an understanding of their operations.

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## OVERALL AUDIT OBSERVATIONS

While the Ministry has implemented many initiatives to improve the provision of ambulance services, improvements should be made in key areas. In particular, further efforts by the Ministry are needed to properly monitor, assess and report on the effectiveness of ambulance operations and services. In light of its objective of reducing death, disability and suffering due to sudden illness or injury, knowing where improvements need to be made in responding to emergencies in a reasonable time with properly trained and equipped personnel is critical to taking corrective action in all areas of the province.

The Ministry's recent initiatives include the development of standards for ambulance attendants, the establishment of first-response teams, and the expansion of the defibrillation program to cover 87% of the residents of Ontario. Our recommendations complement many of these initiatives.

## DETAILED OBSERVATIONS

### PROGRAM EFFECTIVENESS

#### RESPONSE TIME

In Ontario, responding to medical emergencies is a co-operative effort of ambulance, fire and police services. Fast responses with properly trained and equipped personnel are critical to the survival or well-being of patients with certain types of illnesses or injuries. For example, cardiac arrest victims stand a better chance of survival if defibrillation is initiated within eight minutes after the condition occurs. In other emergencies such as trauma, getting the patients to hospital as quickly as possible is often the major concern. In most situations, the only method of transporting victims is by ambulance.

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The Ministry has no control over the provision of fire and police services and, accordingly, does not track how quickly these services respond to medical emergencies. Therefore, one primary measure available to the Ministry to assess the quality of emergency services is the response time for ambulances.

The Ministry has established the following standards for dispatcher reaction time, crew notification time and crew mobilization time:

- a dispatcher should determine location and priority within one minute after receipt of a call. The Ministry does not measure or monitor this time;
- a dispatcher should notify an ambulance crew within one minute upon determining destination and priority. Ministry statistics indicated that in 1993/94, only 3 out of 21 central ambulance communication centres met this standard. The provincial average was 1.5 minutes, while five central ambulance communication centres averaged over 2 minutes; and
- for emergency calls, an ambulance crew on-site should mobilize within 2 minutes after receiving notification and 3 minutes for other calls. The Ministry did not compile appropriate information to enable it to determine whether the standard was being met.

The Emergency Health Services Branch's draft Strategic Plan identifies that one of its responsibilities is to "monitor ambulance service response and service times on a community basis to ensure that comparable communities receive comparable service." However, we found no evidence that this was being done. Only one of the three regional offices we visited formally analyzed response time performance and trends and followed up on anomalies. Head office does not monitor response times.

Calls for ambulance service are classified as follows:

Code 1	Minor health problems
Code 2	Scheduled calls requested by health care organizations
Code 3	Serious but stabilized conditions
Code 4	Life-threatening illnesses or injuries

Response times vary greatly among different parts of the province due to factors such as type of ambulance service, community size and geographical environment. Average response times from establishment of priority code to arrival at scene for Code 4 calls range from 6.6 minutes in Metropolitan Toronto to over 15 minutes in many smaller communities. The provincial average outside Metropolitan Toronto is approximately 8.5 minutes. These response times do not include the time it takes a dispatcher to determine the location and assign a priority to a call. The average times have remained fairly consistent over the past five years.

In 1991, the Emergency Medical Services Review commissioned by the Ministry recommended that target response times be established for Code 4 calls from receipt of call to arrival at the scene. However, the Ministry has not accepted that recommendation. We were informed by the Ministry that a number of uncontrollable factors precluded the

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establishment of such targets. These factors include traffic density, weather conditions and call demand on the ambulance fleet.

The review also stated that where these target response times are not being met for more than 10% of emergency calls, the Ministry should review the methods of station location and the need for satellite stations, as well as vehicle and staff deployment.

While the times proposed by the Emergency Medical Services Review have not been accepted by the Ministry, we found no evidence of the Ministry having its own target response times.

#### **Recommendation:**

##### **The Ministry should:**

- establish or refine performance expectations for various components of ambulance response time. Factors to be considered should include the nature of the emergency, the geographical environment, and community size; and
- develop a system to measure and report on actual performance and take corrective action where necessary.

##### **Ministry Response:**

*The Ministry maintains that certain controllable factors such as the reaction time of ambulance attendants and the time of dispatch by a dispatcher are already established. The Ministry will review a variety of indicators used by other jurisdictions to determine their application, if appropriate, to Ontario.*

## **PRIORITY DETERMINATION**

To determine the priority to be given to calls, dispatchers are required to use a dispatch priority card index. The index is based on a series of criteria which have been developed by the Ministry.

From our audit, we noted that the index was not being used consistently by some central ambulance communication centres. There have also been concerns that the index has resulted in calls being incorrectly classified as emergencies. As they respond to a call, ambulance attendants are required to confirm the dispatch priority based on on-site assessment. We found that six central ambulance communication centres had a significant number of calls dispatched as emergency which were non-emergency. These ranged from 38% to 64% of emergency calls. The provincial average was 28%. This places stress on the ambulance system and may affect overall response time performance.

#### **Recommendation:**

**The Ministry should investigate why certain central ambulance communication centres have a high incidence of overstated priorities and take the necessary corrective action.**

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### **Ministry Response:**

*The Emergency Health Services Branch is in the process of studying dispatch methodologies which, in part, will provide information about assigning call priority and review the reasons for determination of high priority calls. Emergency Health Services will also undertake a review of the codes (1-4 and so on) to determine if they correctly describe the condition of the patient as described to the call taker. Action will be taken based on the results of these reviews.*

## **QUALITY OF PATIENT CARE**

In Ontario, ambulance services provide two levels of patient care: basic life support and advanced life support. Ambulances are also used to transfer patients between health facilities such as hospitals, nursing homes and homes for the aged. Basic life support includes first aid, the administration of oxygen, and cardiopulmonary resuscitation. Advanced life support is the performance of delegated medical acts (for example, defibrillation, intubation and intravenous drug administration) by ambulance paramedics certified by, and operating under the supervision of, a physician. Some basic life support attendants are also trained to administer defibrillation, which is the most often used and most accepted form of advanced life support. As of March 1995, about 95 ambulance services covering 87% of Ontario's population were equipped with defibrillators.

At the time of our audit, only three communities in Ontario—Toronto, Hamilton and Oshawa—had paramedic programs providing a wide range of advanced life support interventions. We were advised that the limited development of paramedic services in the ambulance system was due to a lack of scientific evidence for the effectiveness of any pre-hospital advanced life support technique besides rapid defibrillation.

To ensure that ambulance attendants are providing adequate care to patients, the Ministry has recognized a need for:

- minimum qualification requirements for ambulance attendants;
- standardized procedures;
- measurable performance expectations; and
- a quality assurance system to ensure that such performance expectations are adhered to.

## **QUALIFICATION REQUIREMENTS FOR AMBULANCE ATTENDANTS**

Regulation 19 to the *Ambulance Act* states the qualifications required for full-time, part-time and volunteer ambulance attendants and the qualifications needed for those administering advanced life support interventions. Operators must not hire emergency medical attendants who do not meet the necessary requirements. The Ministry has procedures in place to ensure compliance with these requirements.

In November 1989, an Emergency Medical Attendant Review of staffing and training needs was conducted by the Provincial Health Services Advisory Committee. This review concluded that since full-time, part-time and volunteer ambulance attendants were performing essentially the same tasks, current disparities in qualifications for employment did not meet patient care needs and could not be justified. Specifically, "the current qualifica-

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tion standard for part-time and volunteer emergency medical attendants does not ensure access to a reasonable level of patient care."

The review team recommended that the minimum requirement for a volunteer should be the completion of a 125-hour *Fundamentals of Casualty Care* certification and that part-time attendants should have the same qualifications as full-time attendants. Although that report was issued in 1989, the Ministry has not reassessed the minimum requirements for part-time and volunteer ambulance attendants.

#### **Recommendation:**

**The Ministry should reassess the qualification requirements for part-time and volunteer ambulance attendants.**

#### **Ministry Response:**

***The Ministry agrees that the qualification requirements for part-time and volunteer ambulance attendants should be reassessed. The Ministry currently ensures that ambulance attendants meet the required qualifications under the Ambulance Act and Regulation 19, and, should the reassessment result in modifications to the Regulation, will enforce required compliance with the Regulation.***

### **ONTARIO PRE-HOSPITAL ADVANCED LIFE SUPPORT STUDY**

In 1994, the Ministry initiated the Ontario Pre-hospital Advanced Life Support Study to investigate the effectiveness of various advanced life support interventions. According to the research protocol for this study, the survival rates for outside hospital cardiac arrest victims in Ontario communities are among the lowest reported in Western countries at 2.5% overall. Some communities in the United States report survival rates of 15% to 30%.

Twenty two communities throughout Ontario have been included in the study. Each community will be eligible to receive advanced life support training for its ambulance attendants if it is able to achieve a target response time of eight minutes or less for 90% of all outside hospital cardiac arrest cases. As mentioned above, the survival of cardiac arrest victims is improved if defibrillation is initiated within eight minutes of the onset of cardiac arrest.

The benefit of the advanced life support techniques will be measured in terms of patient outcome over a period of five to seven years. Paramedic services may be introduced to other communities if the services are proven to be effective.

This approach coincides with a recommendation in the Emergency Medical Services Review Report that the expansion of certain advanced life support procedures should depend on research evidence showing positive patient outcomes.

We will follow up on the progress of this study and the resulting changes to ambulance services in our next audit of this area.

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## PERFORMANCE STANDARDS FOR LIFE SUPPORT

In 1994, to ensure consistency in the provision of life support interventions, the Branch's medical consultant drafted a new set of basic life support patient care standards. These standards outline the performance expectations in various illness or injury situations which must be met by all ambulance attendants providing basic life support. With the assistance of the medical profession, the Ministry has also developed performance standards for several advanced life support procedures.

## NON-EMERGENCY PATIENT TRANSFERS

A large percentage of non-emergency calls pertains to transfers of patients between health care facilities such as hospitals, nursing homes and homes for the aged. Non-emergency transfers are performed only when ambulance attendants and vehicles are not required for emergency calls. Depending on the urgency, patient transfers can range from Code 1 to Code 4. In 1993, Code 1 and 2 calls accounted for approximately 40% of all ambulance calls. This was down from approximately 46% of all calls in 1988. We understand that the decrease is partly due to health care facilities using alternative transportation to avoid delays.

The Ministry has not established any performance measures and standards for non-emergency transfers. Management information is limited to volume statistics.

Current Ministry policy states that central ambulance communication centres cannot refuse any patient transfer requests received from health care facilities. The Ministry estimates that 8% to 12% of the current non-emergency patient transport requests are not essential. This was confirmed by a study conducted of a large regional municipality in 1992 by a District Health Council. The study reported that 50% of all Code 3 transfer requests made by hospitals and nursing homes should have been rated as Code 1. The study also reported that:

- 20% of the ambulances dispatched for patient transfers were rerouted because a higher priority call was received or because the transfer was cancelled;
- 25% of the non-emergency transfers were delayed. Most delays were for two to three hours; and
- 50% of the Code 2 scheduled requests did not follow the 24-hour advanced booking requirement.

In 1994, a one-year pilot project was launched in the same large regional municipality mentioned above to separate emergency and non-emergency ambulance services. Four vehicles staffed by regular ambulance attendants were designated to perform inter-facility transfers exclusively on predetermined routes and schedules. Interim results indicate a reduction in the number of delays and improvement in the quality of service.

The Ministry has also developed a proposal to encourage, where feasible, the use of other transportation options such as taxis and public transit. This proposal includes criteria to be used in determining which transportation option should be used. The final decision as to the type of service used must still be made by a health care professional.

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The 1989 *Emergency Medical Attendant Review* reported that different skill sets are required for emergency response and routine transfers. The report also stated that "the existing practice of using emergency response vehicles and staff to perform these elective transfers represents a tremendous over commitment of resources."

#### **Recommendation:**

The Ministry should ensure that the most cost-effective resources are used for non-emergency patient transfers.

#### **Ministry Response:**

*The Ministry presently operates two pilot projects that entail the separation of vehicles performing routine patient transfers from those ambulances servicing emergency life-threatening calls. These projects will assist in the utilization of the most cost-effective resources for non-emergency patient transfers.*

*The Emergency Health Services Branch (EHS) is the focus for all medical transportation services within the Ministry of Health. EHS is in the process of developing fiscal, regulatory and policy options concerning the use of non-emergency medical transportation (due July 1995).*

*EHS is proceeding with the Medical Transportation Objectives detailed in the EHS Branch Strategic Plan (1995-1999) aimed at ensuring that the most cost-effective resources are used for non-emergency patient transfers. These objectives include:*

- *the development and implementation of education programs to assist users in determining the medical transportation service that best meets the needs of the person for whom the service is required;*
- *the establishment of criteria-based decision instruments for individual health care facilities to use in determining the most appropriate medical transportation option based upon the medical and mobility needs of the client;*
- *the empowerment of ambulance dispatchers to choose and utilize an appropriate medical transportation option;*
- *ensuring the establishment of a regulatory framework that will give assurance of the quality of a non-ambulance service operated medical transportation service;*
- *investigating and making recommendations regarding funding alternatives for ambulance and non-ambulance service operated medical transportation services and control centres; and*
- *ensuring that Ministry efforts regarding medical transportation are consistent and integrated with the efforts of other government agencies involved in the regulation and/or delivery of medical transportation (including the Co-ordination of Community Transportation initiative).*

#### **Recommendation:**

The Ministry should develop appropriate standards and mechanisms to measure and report on the effectiveness of non-emergency transfer services, including whether the services are being used appropriately.

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**Ministry Response:**

*The Ministry of Health, in conjunction with the Ontario Hospital Association, has jointly developed a medical transportation decision-making aid "matrix" which has been circulated to medical facilities for comment. The Ministry is currently reviewing the comments received from facilities and will be sponsoring research to test the validity and reliability of the decision aid before formal system introduction.*

*The Ministry has recently surveyed medical facilities on:*

- *the extent and use of non-ambulance transportation alternatives; and*
- *the need to develop and regulate alternative transportation modalities.*

*The Emergency Health Services Branch will incorporate these comments in non-ambulance medical transportation regulatory options concurrently under development.*

## **UNLICENSED PATIENT TRANSFER SERVICES**

Over the past few years, a number of private businesses have been established in Ontario to offer emergency first aid and medical transportation services to health care institutions and at social and sports events.

These businesses are currently unlicensed and unregulated. As the Ministry has a legislative mandate to license and regulate all "ambulance services," we are concerned that the Ministry's lack of attention to these unlicensed medical transport services may give rise to Crown liability for not regulating or closing down a business that has negligently caused injury or damage to patients or other parties.

The Emergency Medical Services Review also recommended that non-ambulance patient transport services should be regulated.

### **Recommendation:**

**The Ministry should monitor the provision of medical transportation services to the public and determine whether it should be regulated.**

### **Ministry Response:**

*The Ministry is working with medical transportation users and Ministry legal staff to develop options for regulation of non-ambulance medical transportation providers, and is taking legal action where appropriate.*

## **MINISTRY INITIATIVES**

### **EMERGENCY FIRST-RESPONSE TEAMS**

The Ministry has established emergency first-response teams in small communities where the Ministry has determined that the low call volume does not warrant the establishment

of full ambulance services. Emergency first-response team members are mostly volunteers who are trained to assess and stabilize a patient before an ambulance arrives.

At the time of our audit there were 78 first-response teams in the province. The cost of these teams is usually limited to training and some basic equipment and supplies. The use of these teams has enabled the Ministry to better deploy the ambulance resources allocated to these parts of the province.

## WORKING HOURS

There are no restrictions on the number of hours an ambulance attendant can work. As a result, some ambulance attendants frequently worked for extremely long hours, thereby potentially putting other ambulance attendants and the public at risk. For example, we noted one private operator who, in addition to managing the ambulance service, worked over 80 hours per week as an ambulance attendant. A recent Ministry review found numerous deficiencies in that ambulance service's operation due to poor management practices which were related to the long hours worked by the operator of the service.

### Recommendation:

**The Ministry should impose restrictions on the maximum number of hours an ambulance attendant can work.**

### Ministry Response:

*The Ministry shares the concern with respect to the number of hours an ambulance attendant can work and has issued Occupational Health and Safety letters to this effect. This has been discussed at length with OPSEU and other unions. This issue has been considered by the Ministry of Labour and included in its recommended amendments to the Occupational Health and Safety Act; at this time, these amendments are still pending.*

## MANAGEMENT OF FINANCIAL RESOURCES

### FUNDING/RESOURCE ALLOCATION

The *Ambulance Act* states that the Ministry has a duty to ensure the development throughout Ontario of a balanced and integrated system of ambulance services. As mentioned earlier, the Branch's draft strategic plan confirms the responsibility of ensuring that comparable communities receive comparable service.

However, we noted that the Ministry's allocation of resources to the various service providers was not based on an assessment of service needs. Funds were allocated by the Branch to the six regions based on a fixed percentage adjustment to the previous year's budget.

None of the regional offices we visited had performed any comprehensive reviews of the existing number and location of stations for the services in their regions. In general, vehicles and staff are assigned to services based on historical allocations. There was no indica-

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tion that adjustments to allocations were based on call volumes or other workload indicators.

**Recommendation:**

**The Ministry should ensure that funds are allocated across the province based on an assessment of current needs.**

**Ministry Response:**

***We agree with the recommendation, and we plan to continually improve our needs assessment so that resources are allocated and reallocated to the maximum extent possible.***

## **FINANCIAL MONITORING**

### **SUBMISSION AND REVIEW OF SETTLEMENTS**

The Ministry reimburses operators for the actual costs they incur to operate their ambulance services. Generally, the Ministry provides advances semimonthly based on an annual budget agreed to by the Ministry and the operator.

At the end of each fiscal year, the difference between actual costs and Ministry advances is calculated. For the 1992/93 fiscal year, the Ministry recovered a net amount of \$3.6 million.

The settlement process is critical in determining that funds were spent properly, and in enabling the Ministry to recover excess advances promptly. However, most ambulance services did not submit their audited financial statements and settlement reports within the 60-day deadline required by the Regulations. For example, in the three regions we visited, almost 50% of the settlement reports were submitted more than 90 days after year-end.

As well, the Ministry did not review the financial statements and settlement reports on a timely basis after they were received. Regional offices are expected to perform preliminary reviews of year-end settlements and make any applicable recoveries immediately. We noted that, at two of the three regions we visited, such reviews were either not performed on a timely basis or were not done at all. For example, in one region as of December, 1994, only 10 of the 31 financial statements for the fiscal year ended March 31, 1994 had been subjected to this review. Ten of the unreviewed services had reported a total of over \$430,000 in surplus. As at December 1994, this amount had not yet been recovered.

The Ministry's Fiscal Strategies Branch performs formal reviews of the settlements. At December 1994, 108 of the 170 settlements for 1993/94 had not yet been reviewed. Over half of the 1992/93 settlements were reviewed more than one year after March 31, 1993.

Late submission and review of financial statements and settlement reports means that the annual budget of some services is based on the previous year's budget and not the actual amount spent.

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We reviewed 18 settlements submitted by ambulance services for the 1992/93 fiscal year, and noted the following:

- required audited financial statements were not submitted by two volunteer services and one small operator. Audited financial statements are important as they provide an independent verification of the use of public funds by the ambulance services; and
- related party transactions were a problem with some private operators. For example, a private ambulance service had advanced approximately \$73,000 interest-free to a related company.

Based on an announcement made by the Minister of Health in April 1994, the Ministry will change the funding method for ambulance services from semimonthly cash flow to monthly invoicing of actual expenses. We understand that the new funding mechanism will first be implemented for all private operators by April 1996. While this should decrease the amount of adjustments at year-end, the requirement for audited financial statements will continue.

#### **Recommendation:**

**For ambulance operators, the Ministry should:**

- **enforce the requirement for timely submission of audited financial statements and settlement reports;**
- **ensure that settlements are reviewed and overpayments are recovered on a timely basis; and**
- **assess the appropriateness of any related party transactions.**

#### **Ministry Response:**

*We agree with the timely submission of financial settlements and audited statements and will take steps to enforce the legislated requirements.*

*With respect to related party transactions and the reported advance to a related company, the Ambulance Act clearly stipulates that funding provided by the Province for ambulance purposes shall only be used for purposes directly related to the provision of ambulance services. In addition, financial guidelines issued to each operator reinforce the unacceptability of an operator using funds for such purposes. If the Ministry finds that an operator has advanced funds to another company the Ministry will take required actions, up to and including legal action and licence revocation. In the specific instance mentioned, the Ministry has assigned members of Audit Branch of the Ministry to review the matter, and, upon completion of the audit report, will undertake any necessary efforts to ensure compliance with the legislation and policies.*

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## OTHER MATTERS

### METROPOLITAN TORONTO AMBULANCE SERVICE

Metropolitan Toronto's Department of Ambulance Services responds to approximately 35% of all ambulance calls in the province. This service has a unique relationship with the Ministry which gives it more operational autonomy than other operators. Since the Ministry provides only a portion of the costs for operating this service, it delegates most of the decision-making to the service. The service operates its own dispatch centre, owns most of its vehicles, determines staffing levels, and deploys staff and vehicles. However, all legislative and policy requirements must still be followed.

While there is regular dialogue between the Ministry's regional office and the service, ongoing monitoring of the service's operations through service reviews and visits is minimal.

In February 1993, Ministry staff visited 16 of the service's ambulance stations and reported the following concerns:

- staff sleeping at the stations during mid-morning and mid-afternoon shifts;
- unsanitary premises and vehicles; and
- poor inventory controls over supplies and equipment.

While follow-up visits found that the service promptly corrected most of the problems identified, the Ministry's regional manager recommended that a more thorough review be performed by the Ministry. However, such a review has not yet been performed.

In September 1994, a task force established by Metropolitan Toronto Council raised concerns over reported problems with the service's ambulance dispatch system and procedures. In response, Metro Council requested that a joint multi-disciplinary review be performed on its ambulance service with the assistance of Ministry staff. At the conclusion of our audit, the review had not been scheduled.

#### **Recommendation:**

**The Ministry should ensure through service reviews and visits that Metropolitan Toronto's Department of Ambulance Services complies with all legislative requirements and Ministry policies and that the quality and level of service provided is satisfactory.**

#### **Ministry Response:**

***The ambulance service provided by Metro's Department of Ambulance Services is provided under the same legislative and procedural guidelines as all other services in the Province.***

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*The Metropolitan Toronto Council will shortly be conducting a comprehensive review of ambulance services in Toronto. A service review of the Department of Ambulance Services by Emergency Health Services was planned. The Ministry will consider such a review upon completion of the Metropolitan Toronto Council's review. It should be noted that the designation of staff to perform a review in Toronto will necessitate a further increase in the cycle of reviews for all other ambulance services.*

## COMPLAINTS AND INVESTIGATIONS

Complaints are an indication of the adequacy and quality of ambulance services. The Investigation and Licensing Section of the Emergency Health Services Branch investigates all complaints received by the head office as well as serious complaints that have been forwarded by the regional offices.

We found that complaints investigation by the Investigation and Licensing Section was done on a timely basis and was thoroughly performed and documented. We also found that regional offices ensured that all resulting recommendations were implemented.

For complaints received by ambulance operators, Ministry guidelines delegate the authority to investigate these complaints to the operators.

The Regulations to the *Ambulance Act* require operators to prepare an incident report on all formal complaints and the resulting investigations and file the reports with the Ministry. However, most ambulance services are not complying with this requirement. Proper analysis of these reports would enable the Ministry to identify patterns or issues related to a service or a group of services. These patterns might also suggest a need for training, support or other action by the Ministry.

### **Recommendation:**

#### **The Ministry should:**

- **enforce the requirement that operators report all formal complaints to the Ministry; and**
- **review and analyze these reports to determine whether any Ministry action is necessary.**

#### **Ministry Response:**

*The Ministry will review the complaint reporting process with the operators to ensure that, where appropriate, they are documented and forwarded to the Ministry who will review these reports to determine whether Ministry action is necessary.*

## INFORMATION SYSTEM

The Ambulance Response Information System is a computerized dispatch system developed jointly by the Ministry of Health and the former Ministry of the Solicitor General. The system also compiles information such as call volumes and response times on all ambulance calls in the province.

The development of the Ambulance Response Information System was first approved by the Management Board of Cabinet in 1989. The first version of the system was installed at a Central Ambulance Communication Centre (CACC) in July 1991. As of December 1994, 11 CACCs were using the system and the project was on time and on budget.

The main benefits realized to date are improved accuracy of information and ease of use for dispatchers.

In a 1988 submission to the Management Board, the Ministry identified the following potential benefits of the Ambulance Response Information System:

Potential Benefits	Status
Produce timely and consolidated reports to assist regional and branch management in analyzing, controlling and planning the growth of the system.	<i>Not achieved.</i> The reporting functions of the system were not addressed until mid 1994. As of December 1994, few management reports were available and the accuracy of some of them was questionable. The production of appropriate reports could assist management in achieving other potential benefits of the system.
Reduce by five the number of central ambulance communication centres and thus reduce the need for supervisory personnel and physical facilities.	<i>Not yet achieved.</i> There are currently 21 central ambulance communications centres although plans exist to eliminate four of them.
Increase average ambulance usage from 150,000 to 180,000 km over its 5-year life through better vehicle utilization.	<i>Unable to conclude.</i> The Ministry has attempted to defer the requirement for capital funds by keeping vehicles in service longer.
Increase the average annual number of calls an ambulance can complete by approximately 20%, thus reducing the ambulance fleet by 25 vehicles and the staffing requirement by 200.	<i>Not achieved.</i> The average annual number of calls an ambulance completes has actually decreased.
Increase the number of calls and the number of vehicles a dispatcher can manage by approximately 20 per cent.	<i>Not achieved.</i> Time studies conducted in 1994 found that there was no impact on staffing requirements for central ambulance communication centres.

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**Recommendation:**

The Ministry should evaluate the results achieved by the Ambulance Response Information System (ARIS) to determine why certain expected benefits have not materialized.

**Ministry Response:****Reporting functions of ARIS:**

*With most installations now complete, the enhanced report-writing component of ARIS has been assigned the top priority for development. Assuming that staff and development resources remain, target completion for ad hoc reporting capability is mid 1996.*

**Reduce number of central ambulance communication centres (CACCs) by five:**

*CACC amalgamation has taken longer than expected, and is scheduled to begin again in the latter part of 1995/96.*

**Increase average ambulance life:**

*Average ambulance life usage has increased, but primarily as a result of reducing capital expenses and of monitoring fleet activities and costs through other information systems (Fleet Plus).*

**Increase average number of calls per ambulance:**

*The enhanced report writing component and future implementation of the Emergency Georeferencing System (EGS) will provide that capability.*

**Increase number of calls/vehicles a dispatcher can manage:**

*It is possible that this objective can be achieved; however, the timing will depend on the development/implementation cycle for the enhanced reporting component.*

## **PROCUREMENT OF PHYSICAL ASSETS**

We reviewed the acquisition process for vehicles and certain equipment and were satisfied that the Ministry followed and documented proper competitive procedures.

# Residential Services Activity

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The Ministry of Health's Long-Term Care Program is responsible for developing and implementing policies and programs to facilitate the effective delivery of health services to elderly persons and physically disabled adults. The Residential Services Activity funds and monitors the care of individuals residing in nursing homes and homes for the aged.

The establishment and operation of long-term care residential facilities are governed by the *Nursing Homes Act*, the *Homes for the Aged and Rest Homes Act*, and the *Charitable Institutions Act*. In 1990, the ministries of Health, Community and Social Services, and Citizenship released a paper entitled *Strategies for Change, Comprehensive Reform of Ontario's Long-Term Care Services*. This paper outlined the strategic directions the Province would be taking to reform long-term care and support services. It also provided a framework for community discussions.

After extensive public consultation, a long-term care policy framework was released in a series of publications entitled *Partnerships in Long-Term Care: A New Way to Plan, Manage and Deliver Services and Community Support*. The framework proposed more emphasis on funding programs that would enable elderly and other persons to remain in their homes. This in turn would reduce the demand for long-term care beds.

The first part of the government's strategy was to consolidate the administration of the nursing home and home for the aged programs under the Ministry of Health. Homes for the aged were previously administered by the Ministry of Community and Social Services. The Province announced four main goals for the reform of the Residential Services Activity of the Long-Term Care Program:

- to establish a more equitable funding model for facilities based on the assessed levels of care required by residents;
- to improve accountability to residents through quality assurance mechanisms and service agreements;
- to establish a consistent and equitable resident payment policy regarding accommodation costs; and
- to establish a new placement co-ordination process.

In June 1993, the three acts were amended by the *Long-Term Care Statute Law Amendment Act* which provides the Ministry with the legislative authority to implement long-term care reform with respect to residential facilities.

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The Residential Services Activity is jointly administered by the Long-Term Care Division's Residential Services Branch and 14 area offices which report to the Division. The Residential Services Branch includes a corporate office and three regional offices. Area offices are responsible for program administration and administering funding to the facilities in accordance with applicable legislation and policies. Regional offices have primary responsibility for long-term care facility operations, with support and enforcement services available in the Branch's corporate office.

In fiscal 1994/95, 335 nursing homes and 170 municipal and charitable homes for the aged received approximately \$1.1 billion from the Ministry. An additional \$700 million was collected by the facilities for accommodation-related charges from the approximately 56,000 residents.

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## OBJECTIVES AND SCOPE

The objectives of our audit of the Ministry's Residential Services Activity were to assess whether goals had been clearly defined and performance was being measured and reported, and whether the Ministry had adequate procedures in place to ensure:

- that applicable legislation and policies were being followed; and
- that resources were being managed with due regard for economy and efficiency.

Our audit included a review and analysis of information available at the Long-Term Care Division's head office, the three regional offices and four of its area offices, as well as discussions with appropriate staff.

We also met with representatives of the Ontario Nursing Home Association, the Ontario Association of Non-Profit Homes and Services for Seniors, and the Ontario Association of Resident Councils.

## OVERALL AUDIT OBSERVATIONS

At the time of our audit, the Ministry had amalgamated the government's administration of nursing homes and homes for the aged into one program; had implemented service agreements that commit facilities to quality of care requirements; and had made progress in implementing a more equitable system of funding. However, much still needs to be done to ensure that there is adequate accountability to the Ministry. In particular:

- the effectiveness with which the objectives of long-term care reform are being met needs to be better measured and evaluated so that corrective actions can be taken where necessary;
- "levels of care funding" has still not been fully implemented to ensure that funding provided to long-term care facilities is allocated based on need;
- the supply and distribution of beds in the province need to be addressed to ensure that sufficient beds are provided where the need is greatest; and
- serious complaints need to be investigated more promptly.

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# DETAILED AUDIT OBSERVATIONS

## EVALUATION OF LONG-TERM CARE REFORM

In its policy papers the Ministry made a commitment to develop an evaluation plan stating the principles, goals, objectives and expected outcomes of long-term care reform, as well as the critical success factors and expected benefits. The evaluation was expected to take place over a five-year period beginning in 1993. The overall evaluation plan, along with a report on the progress of the long-term care reform, was scheduled for completion in early 1994.

As of March 31, 1995, the evaluation plan had not been fully developed. For example:

- procedures to monitor the cost of services provided were still in draft stages and were being circulated for comments;
- qualitative assessment criteria were still in the developmental stage; and
- the interim report on the progress of implementing long-term care reform had not been prepared.

Currently, effectiveness measures for the Residential Services Activity consist of data on the volume of services provided, but do not contain specific targets or benchmarks to measure the extent to which Activity objectives have been achieved. Considering the magnitude and complexity of long-term care reform, the development of measurement criteria is critical to evaluating the relative success of the reform initiatives.

Timely evaluation of the effectiveness of the facility reform process would provide the Ministry with useful information for consideration during the introduction of further reforms to the Long-Term Care Program.

### **Recommendation:**

**The Ministry should ensure that its evaluation framework for the Residential Services Activity includes specific indicators to measure the extent to which objectives are being achieved.**

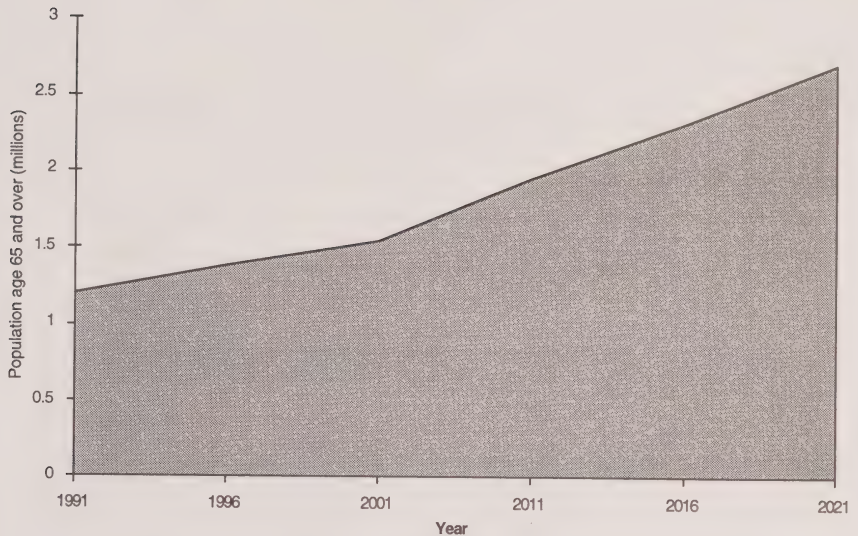
### **Ministry Response:**

*The Long-Term Care (LTC) Division acknowledges that an evaluation plan has not been fully developed. It is the intention of the Division to ensure that measurable outcomes and success indicators are included in the evaluation plan as recommended.*

## SUPPLY OF LONG-TERM CARE BEDS

Population projections show that the number of residents in Ontario aged 65 and over will increase from approximately 1.4 million in 1996 to 2.7 million in 2021 as follows:

### Projected Population Growth in Ontarians Age 65 and Over



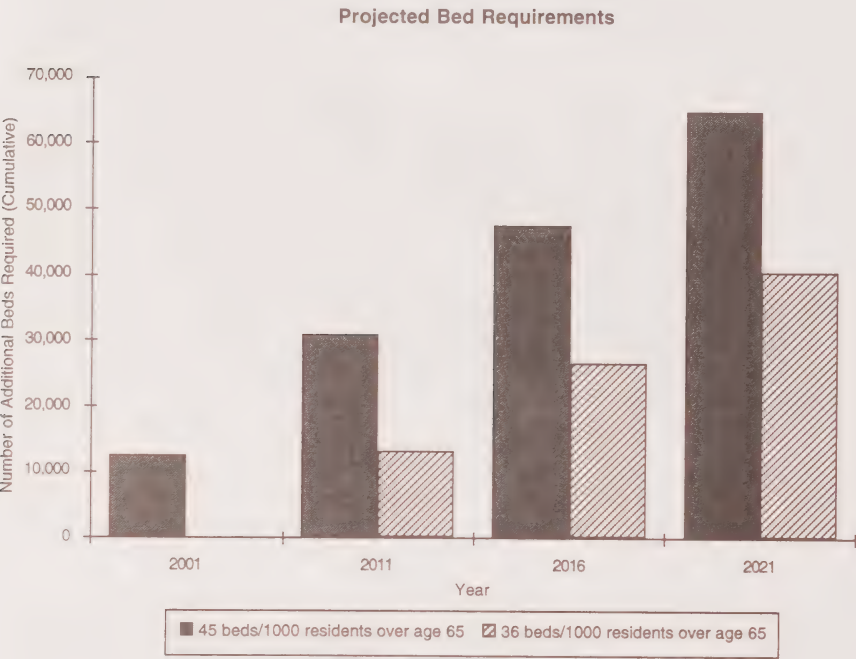
*Source: Ministry of Finance*

Residential bed supply is usually measured as the number of beds per 1,000 members of specific age groups of the population. Currently, Ontario's average bed ratio is the lowest in Canada at 45 beds per 1,000 residents aged 65 and over. The Canadian and U.S. averages are 53 per 1,000. The Ministry has not formally indicated what it considers to be the most appropriate level, and thus what level it wishes to attain.

Long-term care reform places emphasis on programs that maintain the elderly in their homes. Through this, the Ministry hopes to respond to the public's preference for remaining in the community while, at the same time, reducing the number of people requiring accommodation in long-term care facilities.

Other jurisdictions that have developed formal policies to increase the delivery of long-term care services through community-based settings have established bed ratio targets. For example the United States General Accounting Office reported that Washington state had established a goal to reduce its ratio of long-term care beds from 54 to 45 per 1,000 residents over age 65 while Oregon was able to reduce its bed ratio from 54 to 36 beds per 1,000.

Population projections indicate that even if the Ministry were able to attain Oregon’s residential bed rate of 36 per 1,000 residents aged 65 and over by 2011, the province would need 13,000 beds in addition to the 56,000 currently available. If the residential bed rate remains at the current Ontario average of 45, approximately 30,000 additional beds will be required, as shown in the following chart:



*Source: Office of the Provincial Auditor with data from Ministry of Finance*

In a policy framework document prepared in April 1993, the Ministry stated that the total number of long-term care beds would not be increased at that time. The plan was “that in 1995, the need for long-term care beds will be reviewed. At that time, District Health Councils would be asked to look at the demographics of the communities they serve, at their plans for alternatives such as community services and supportive housing, and at changes that have taken place in chronic and acute care hospitals.” On the basis of that analysis, new beds may be added or existing facilities downsized.

Although the Ministry is aware of the significant projected growth in the population over age 65, we found that a targeted ratio and a strategy to meet that target had not been developed. The Ministry may therefore not be able to cope with the shortage of beds which will arise in the near future without significant construction of new facilities.

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The Ministry has now indicated that during 1996/97 it will be in a position to examine the current need for long-term care beds and the impact of its improved range of community service options on the demand for beds and to establish targets for bed supply.

#### **Recommendation:**

**The Ministry should develop a target bed ratio and a strategy to meet the need for beds to cope with the shortage of beds which is predicted to arise.**

#### **Ministry Response:**

*Throughout the Long-Term Care (LTC) Redirection consultation, external interest groups and individuals expressed support for increasing community-based services that would enable elderly and disabled persons to remain in the community. As a result, the main focus of the LTC reform has been on development of community resources. At the same time, the government indicated that the number of beds in total would not increase during the multi-year reform (90/91 to 96/97), but efforts, where possible, would be made to reduce major discrepancies in the distribution of beds.*

*From a statistical standpoint, it is accepted that there will be a much greater demand on LTC facilities with the growing elderly population. The adequacy of our LTC facility bed supply will be reviewed in 1996/97. Factors such as Placement Co-ordination Services waiting lists, District Health Council recommendations, level of community resources and the viability of community-based alternatives to facility care will be considered in this review.*

### **DISTRIBUTION OF BEDS**

In its April 1993 policy framework, the Ministry stated that long-term care beds in Ontario are "distributed unevenly and access is not well co-ordinated." In 1994, the Ministry introduced a new placement co-ordination process.

The Ministry's policy is to assess the supply of long-term care beds across the province by county and region in relation to the provincial average. This process does not recognize that the need for beds may vary between counties based on factors such as the availability of alternative care or community support mechanisms.

County and regional long-term care bed supply figures currently range from 26 to 93 per 1,000 residents aged 65 and over (the provincial average is 45 beds per 1,000).

To prevent increased disparity in the distribution of long-term care beds, the Ministry's policy does not allow existing bed allocations to be transferred to a region where bed supply is significantly above the provincial average. The redistribution of beds (primarily nursing home beds) occurs when operators offer to sell their businesses. Beds in homes for the aged are more difficult to transfer because they were originally allocated to a specific municipality or charitable organization.

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The Ministry recognized that this policy would have only a limited impact on the distribution of beds. During the past five years, the Ministry approved the sale or transfer of 815 beds, of which only approximately 100 were transferred from over- to under-bedded areas of the province. The other bed allocations remained in their original counties.

The lack of a systematic plan to determine where needs are greatest and eliminate the wide variations in bed supply contributes to long waiting lists, and may force people who should be in a facility to remain at home or in acute care hospitals until beds become available in long-term care facilities.

#### **Recommendation:**

**Before allocating existing or new beds, the Ministry should determine where the need for additional beds is greatest.**

#### **Ministry Response:**

***The Ministry agrees with this recommendation. There are a number of areas of the province where long-term care (LTC) facilities consistently operate with empty beds, while in other areas the demand is quite significant. Therefore, equalization of LTC bed resources is an integral part of future planning to determine appropriate LTC facility bed numbers and resources.***

## **COMPLIANCE WITH STRUCTURAL AND ENVIRONMENTAL STANDARDS**

The structural and environmental standards for nursing homes are set out in Regulations under the *Nursing Homes Act*.

In 1986, the Nursing Home Compliance Plan Review Board reported to the Minister of Health on structural deficiencies in nursing homes, noting that multiple structural deficiencies have an adverse impact on the ability of a home to provide efficient care and quality of living for its residents. The Board recommended that "consideration be given to prohibiting such outdated homes from continuing to function as nursing homes unless the home is prepared to meet total compliance."

In 1988, the Ministry informed nursing home operators that their facilities must meet structural and environmental requirements by June 1993. Homes found to be in non-compliance after June 1993 would not be permitted to continue to operate. For licensees unable to come into compliance by that date, the Ministry suggested the following options:

- surrender their licences to the Minister; or
- merge with one or more other licensees or sale to an acceptable purchaser. This would only be allowed if it resulted in the nursing home coming into compliance.

In June 1993, 133 of the 335 nursing homes still had not met these requirements. We were advised by Ministry staff that, due to the costs involved, many operators were unwilling to upgrade their facilities. Enforcing design standards on older facilities was not considered a realistic option, especially if the Ministry wanted to preserve continuity of service. Consequently, no facilities have been closed solely due to structural deficiencies.

In an attempt to bring more facilities into compliance, the Ministry introduced an incentive program which pays operators an additional \$0.80 per resident per day if the facility complies with the structural and environmental requirements in the Regulations. As of March 1995, there were still 68 nursing homes with approximately 7,000 beds which were so deficient that they would require major renovations or complete reconstruction to meet minimum standards.

Currently, there are no comparable regulatory structural and environmental standards for homes for the aged. The Ministry has not assessed the structural and environmental adequacy of these facilities.

### **Recommendation:**

#### **The Ministry should:**

- establish a plan to replace long-term care facilities that cannot meet structural and environmental requirements; and
- assess homes for the aged for structural and environmental deficiencies.

#### **Ministry Response:**

*It is important to note that in 1988 when the structural compliance initiative began, operators were given due notice of the June, 1993 deadline. At that time, the Ministry did not take a firm position on potential penalties for not meeting the deadline, other than indicating that the status of non-compliant facilities would be reviewed at the end of the five-year period. This indeed did happen, with compliance premiums and debt-service allowances introduced.*

*The financial incentives offered by the Ministry following June, 1993, have proven to be a far more successful approach to achieving compliance standards than the five-year plan with the June, 1993 deadline. The Residential Services Branch (RSB) continues to work with and encourage the non-compliant nursing homes to address structural issues and achieve compliance with expected standards.*

*The statements with regard to the lack of legislated structural requirements in homes for the aged are accepted. As the LTC facility monitoring and review program proceeds, and RSB staff have more contact with the homes for the aged, RSB will then be better able to assess the status of these facilities.*

## **LEVELS OF CARE FUNDING SYSTEM**

In 1993, amendments under the *Long-Term Care Statute Amendment Act* introduced a uniform method of funding for all long-term care facilities.

This method of funding consists of three distinct funding "envelopes":

- nursing and personal care;
- programs and support services; and
- accommodation (including the purchase of food).

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Daily rates for each envelope are set by Regulation.

Many jurisdictions, including Ontario, have recognized that funding for nursing and personal care should be based on an assessment of the needs of each resident since these needs can vary significantly. In Ontario, this funding method is referred to as the "levels of care funding system." Each year, residents' charts and care plans are reviewed by Ministry staff, and residents are classified into one of seven nursing and personal care categories. These categories range from lighter care through to heavy care. The number of residents in each category is multiplied by weighting factors to determine the case mix measure (CMM) of that facility. The ratio of the facility's CMM to the provincial CMM produces a case mix index (CMI). This CMI is multiplied by a set daily rate to determine the funding for the nursing and personal care envelope. In 1994, the daily rate was \$38.23 for a facility with a CMI of 100. The rates for other facilities varied, depending on whether their facility's CMI was above or below 100.

The programs and support services and accommodation envelopes are funded at a fixed daily rate for all facilities. In 1994, these rates were fixed at \$2.51 and \$38.87 respectively. The \$38.87 accommodation envelope includes \$4.26 per resident for the purchase of food. The remaining \$34.61 is to cover other accommodation costs. With the exception of funds received for other accommodation costs, facilities must return all unspent funds to the Ministry.

## IMPLEMENTATION OF LEVELS OF CARE FUNDING

The levels of care funding model provides funding based on the relative care requirements of the residents of each facility. Accordingly, facilities with a relatively healthy resident population would receive less funding per resident than a facility with residents requiring more care.

Recognizing that the immediate implementation of levels of care funding would have a significant impact on the funding that some facilities receive, certain guarantees were included in the Regulations. These guarantees provide that facilities will not receive less funding under the levels of care system than they received under previous funding arrangements. The Regulations refer to this as the "red circled" amount.

At the time of our audit, approximately 90 homes for the aged were funded based on their red circled amount. For the year ending December 31, 1994, the Ministry estimated that this amounted to an additional \$100 million in provincial funding and another \$80 million in municipal funding.

We understand that the Ministry believed that the gap between levels of care funding and the red circled amounts would be eliminated over time by the inflation adjustments to the levels of care daily rates. The annual inflation adjustment was projected to be 4% to 5%. However, inflation adjustments have been much lower than originally projected. Accordingly, the gap between the red circled amounts and levels of care funding has not significantly narrowed.

In addition, this guarantee provides no incentive for facilities to reduce expenditures. In fact, some red circled facilities may be better off financially than they were previously because, like all long-term care facilities, they now keep 50% of the premium charged for preferred accommodation. Previously, the Ministry received 70% of the premium.

Regulations under the *Nursing Homes Act* also compressed the Case Mix Index (CMI) range for nursing and personal care funding. Actual nursing home CMIs generally range from 80 to 130. The Regulations adjusted these to create a range from 110 to 116. Accordingly, all nursing homes with CMIs below 110 benefited by having their CMIs raised to the minimum, while those with CMIs greater than 116 were reduced to this maximum.

### **Recommendations:**

**The Ministry should establish a schedule for fully implementing levels of care funding and should provide incentives for facilities to reduce expenditures.**

### **Ministry Response:**

*The comment that "levels of care funding" has not been fully implemented is accepted. In introducing levels of care funding, the Ministry acknowledged that a transitional period would be needed for facilities to adjust to the new funding scheme. In order to support facilities in moving towards levels of care funding, certain interim funding features were implemented so that continuity in the delivery of resident care, programs and services could be assured. At this time, these measures remain in effect until December 31, 1995.*

*The Ministry of Health remains committed to the levels of care approach as the fairest means of distributing funds through a process which recognizes resident care needs. The Ministry continues to review and refine this funding methodology to ensure that funds can be equitably allocated in keeping with the requirements of all long-term care (LTC) facility residents.*

*Although red-circling has always been a feature of levels of care funding, it is also recognized that the red-circling provisions have resulted in a static funding gap between red-circled and non-red-circled facilities. As a first step to address this issue, the LTC Division has initiated discussions with the Ontario Association of Non-Profit Homes and Services for Seniors, and the Association of Municipalities of Ontario on the topics of cost variances and potential reductions in red-circled funding.*

## **NURSING AND PERSONAL CARE GUARANTEE**

The Ministry has guaranteed nursing home operators that, as a minimum, sufficient funding will be provided to ensure that each nursing home resident receives, on average, a minimum of 2.25 hours of nursing and personal care each day.

This funding is provided regardless of the overall care needs of residents in each nursing home. Facilities which could not provide the 2.25 hours under levels of care funding have received additional funding to enable them to do so. Currently, over 100 nursing homes receive, in total, an additional \$16 million a year to hire or retain the staff needed to meet this requirement.

We found no evidence of any analysis performed by the Ministry to establish the need for this guarantee or to determine the appropriateness of the 2.25-hour minimum standard.

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**Recommendation:**

**Rather than guaranteeing a minimum number of hours, the Ministry should fund nursing and personal care based on an evaluation of care needs.**

**Ministry Response:**

***The recommendation to fund based on assessed needs is supported. The results of the resident classification confirm that the provision of 2.25 hours of nursing care does not meet actual resident needs in every facility, and will therefore be reviewed.***

## **STANDARD COSTS**

Each of the three funding envelopes (nursing and personal care; programs and support services; and accommodation) is funded using a standard daily rate, based on the overall estimated funding available for the Residential Services Activity. The accommodation envelope, which includes the food component, is funded primarily from fees paid by the residents, while the other envelopes are funded by the Ministry.

Since facilities must return to the Ministry any unspent funds from the nursing and personal care and programs and support services envelopes, there is an incentive to spend the full amount. Accordingly, it is important that facilities receive the amount actually needed to provide an appropriate level of care and services.

The Ministry did attempt to arrive at an estimate of a standard cost for providing care and accommodation using a 100-bed model facility. Costs were determined from information provided by the facilities. This analysis was used to validate the reasonableness of the standard daily rates. However, the model did not take into consideration differences in staffing levels and wage rates as well as regional cost variations within the system.

A survey recently conducted by the Ministry indicates that there are significant differences among the wage rates paid by various facilities. For example, the average wage for a health care aide in a municipal home for the aged is approximately \$46,000 while a health care aide in a nursing home or charitable home for the aged earns approximately \$33,000. Similarly, a registered nurse in a municipal home for the aged earns, on average, approximately \$64,000 while a registered nurse in the charitable and nursing home sector earns \$56,000. In addition, nursing homes generally employ more health care aides, while homes for the aged employ more nurses.

Labour costs represent the facilities' single greatest expense. Variations in staffing mixes and wages make it difficult to establish standards for the cost of care. In addition, the use of an average rate does not recognize regional cost differences for utilities, food and wages. Facility size and age are also not considered.

Differential rates are currently used in other provincial programs such as the Ministry of Housing's Social Housing Program. That program has developed regional accommodation and utility rates to assist in calculating the financial assistance to be provided in different parts of the province.

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### **Recommendation:**

The Ministry should use information on the costs of providing care and accommodation to:

- verify the accuracy of the current standard rates for each funding category (nursing and personal care; programs and support services; and accommodation);
- develop standards to measure the efficiency of facilities in providing care; and
- develop models for staff mixes for the provision of nursing and personal care to arrive at appropriate funding levels.

### **Ministry Response:**

*Any task related to the costing of care, programs and services has been guided by the principle that there is a need to equitably distribute the funds available.*

*The calculation of the funding provided to long-term care (LTC) facilities has been a multi-level process that involved consulting with the LTC sector to determine the real costs. The costing of the original 100-bed model was calculated following a review of the salaries of staff positions for each funding envelope.*

*The Ministry has collated information on the costs of providing care from the audited financial reports for 1993 and is in the process of collating this information for 1994. The financial data is now being analyzed to identify average and variable costs for each cost centre in each sector (municipal homes for the aged, charitable homes for the aged, red-circled homes, non red-circled homes, for profit nursing homes, not-for-profit nursing homes).*

*The analysis of the 1993 and 1994 financial data will assist in developing a funding methodology which distributes funds based on resident care needs and, at the same time, acknowledges the different staffing costs.*

*The analysis of this cost information will also respond to the second subheading of the recommendation. The average per-diem costs will be summarized according to relevant categories. This will provide a basis for providers to assess their relative efficiency in terms of costs (includes meeting the standards contained in the LTC Facility Program Manual).*

*With respect to models for staff mixes, the LTC Division supports the recommendation to have an adequate staff mix for efficient delivery of care. The service agreement negotiation process will address the staffing plan and deployment to ensure the appropriate use of provincial funds.*

## **RESIDENT PAYMENTS**

In 1993, long-term care reform introduced a new policy for charging residents for accommodation which provided for a standard daily rate for all facilities. Residents are required to pay a fee towards the two types of accommodation costs: basic accommodation and preferred accommodation, which includes semi-private and private. The Ministry's objectives were to have a system which was fair and administratively simple and maximized revenue.

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After implementing the new accommodation policy it became apparent that resident payments would fall about \$35 million short of the expected annual increase in revenue of \$150 million.

## **RATE REDUCTIONS FOR BASIC ACCOMMODATION**

The term “basic accommodation” refers to a standard room, normally containing three or four beds.

In 1994, the daily rate for basic accommodation was a minimum of \$26.94 and a maximum of \$39.40. The minimum rate is based on the income available to individuals over age 65 who are receiving Old Age Security, Guaranteed Income Supplement and Guaranteed Annual Income payments, less \$112 per month which residents keep for discretionary expenses. The maximum rate is calculated based on the income level where an individual receives no guaranteed income assistance, less \$112 a month.

Residents who indicate that they cannot afford the maximum basic rate can apply to the facility for a rate reduction. The rate reduction calculation sets the resident’s daily charge based on a test of annual income. Any reduction to the basic rate is paid to the facility by the Ministry.

In reviewing the current rate reduction process we noted that:

- the income test uses the prior year’s Notice of Assessment for income tax to determine residents’ income. If residents can demonstrate that their income has decreased since that time, adjustments are made. On the other hand, where resident income has increased, there is no requirement to advise the facility until the next year’s Notice of Assessment is received. Fluctuations in income are mostly related to income from investments, which is sensitive to changes in interest rates;
- while a pension from an employer would be considered income, any income earned within a Registered Retirement Savings Plan (RRSP) would not be included;
- under the current system, residents may transfer investments to other family members to reduce their investment income and their ability to pay. Some jurisdictions have dealt with this by requiring residents to include the annual income on any assets transferred within the three years prior to admission to a long-term care facility; and
- sponsored immigrants who become residents of long-term care facilities are currently eligible for a rate reduction for basic accommodation even though sponsorship agreements exist.

If these sources of “income” were considered, the Ministry’s subsidy for rate reductions would decrease.

In addition, we noted that using only income to determine ability to pay is inconsistent with other Ontario subsidy programs. For instance, the Ministry of Housing provides shelter subsidies only after considering all sources of income and the assets of applicants. Prior to long-term care reform, homes for the aged residents’ ability to pay was based on income and assets.

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**Recommendation:**

To ensure fair treatment of all residents, the Ministry should review the current approach for assessing ability to pay to determine eligibility for rate reductions.

**Ministry Response:**

*The resident co-payment scheme is based on an income-tested approach, with a feature to consider hardship cases where appropriate. As a result, it is possible that a person may have considerable assets, and at the same time, can claim hardship based on income. This aspect of the co-payment process is presently under review.*

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## MONITORING QUALITY OF CARE

### COMPLIANCE MANAGEMENT

The Residential Services Branch is responsible for monitoring the quality of care that long-term care facilities are providing to their residents. Nursing homes are licensed under the *Nursing Homes Act* for a period of one year. Licences are normally renewed after the Branch performs an annual review. However, municipal and charitable homes for the aged do not require a licence to operate. In June 1993, the *Long-Term Care Statute Law Amendment Act* provided the Branch with similar inspection powers for homes for the aged.

Since 1988, the Branch has used a consultative and collaborative approach to monitor and improve nursing home performance through the Branch's Compliance and Enforcement Units. This approach recognizes the strengths of a facility's operations and addresses areas of concern relating to resident care.

The Compliance Unit consists of three regional offices, each staffed by a regional manager and a number of compliance advisors. These advisors are all registered nurses responsible for carrying out annual and other reviews of the facilities.

The objective of the annual review is to monitor and evaluate the quality of resident care and services, the quality of programs, and the overall operation of each facility. The results of these reviews are issued in public reports. Facilities found to be in non-compliance with established Ministry standards and criteria must take appropriate corrective action in a timely manner as agreed to by the compliance advisor. Facilities with recurring or prevalent areas of non-compliance, or in which there is a serious risk to resident health or safety, may be referred to the Enforcement Unit for appropriate action.

Once a facility is referred, the Enforcement Unit takes responsibility for monitoring and inspecting the facility. This unit, consisting of specialists in nursing, environmental health and nutrition, may apply various sanctions such as prosecution or suspension of admissions unless satisfactory corrective action is taken to address the areas of non-compliance.

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## **SIGNING SERVICE AGREEMENTS**

The *Long-Term Care Statute Law Amendment Act* requires that, effective July 1, 1993, all long-term care facilities sign service agreements with the Ministry. The Act states that "no payment shall be made unless the facility receiving the payment is a party to a service agreement with the Crown." These agreements commit facilities to the quality of care requirements contained in the Branch's *Long-Term Care Facility Program Manual*.

Most service agreements for the 1993 and 1994 calendar years were not signed until late 1994, while others remained unsigned into 1995. Since the provision of care to residents was critical, the Ministry continued to provide funding to the facilities without signed agreements being in place. In the meantime, the Ministry continued negotiations with facilities to reach agreements.

No annual reviews of homes for the aged were conducted in 1993 and 1994. We understand that the Ministry decided not to conduct any annual reviews of homes for the aged since service agreements, which committed facilities to specific quality of care standards, had not been signed. In 1994, compliance advisors began visits to homes for the aged but these were limited to complaint investigations.

In April 1995, the Ministry began annual reviews of homes for the aged. We will review the status of annual reviews of homes for the aged in our next audit of the Residential Services Activity.

## **SAMPLING METHODOLOGY**

Through the annual review process, the quality of care provided to residents is assessed, in part, using focused and in-depth audits of resident care using samples of residents. Focused audits are mandatory and specifically address areas which are considered to be of high risk to residents.

In 1994, Branch policy required that a minimum of six residents in each facility be selected for focused audits from each of five specific groups (Pressure Ulcers, Disruptive Behaviour, Unplanned Weight Change, Pain and Discomfort, and Restraints). In addition, other residents could be selected for in-depth audits. Specifically, these in-depth audits may include residents with a variety of care needs, such as those with complex medical and nursing care needs. The results of these audits are used to reach conclusions on the adequacy of care programs and services provided by a home. However, the performance of the additional in-depth audits and the number of residents selected were at the discretion of the individual compliance advisor.

To assess compliance with Branch policy, we reviewed a sample of the annual review files of nursing homes. We found that, generally, minimum sample sizes for focused audits were not met. Also, in many cases the residents selected for in-depth care audits were also selected for focused audits. This provided no additional assurance, since all necessary information was captured in the in-depth audits.

In a number of instances, sample sizes were small given the size of the home. For example, in a facility with 326 residents only 6 were audited. We also noted that the sample sizes varied significantly among compliance advisors for homes of similar size. For example, in a 240-bed home an advisor conducted 11 focused audits, while in a 218-bed home another advisor conducted 31 focused audits. Variations in sample sizes in some instances may be justified; however, we found no evidence to indicate that management reviewed the adequacy of sample sizes.

In January 1995, the Branch introduced new policies and procedures. These do not include any guidelines regarding the minimum number of focused or in-depth audits to be performed. Sample sizes are left completely to the discretion of individual compliance advisors. Lack of guidelines could result in under-sampling. This increases the risk of a potentially serious health or safety issue going undetected.

We noted that the United States Health Care Financing Administration has established minimum sampling guidelines for reviews of care and services of all long-term care facilities in the U.S. The guideline provides the reviewer with minimum sample sizes for various sizes of homes. For example, in a facility of 100 residents the minimum sample size is 20 residents, while for a facility of 300 residents the sample size is 30 residents.

#### **Recommendation:**

**To ensure adequacy and consistency in annual reviews, the Ministry should establish guidelines for:**

- **sample sizes of residents to be audited, taking into account criteria such as the size of the facility; and**
- **selecting additional samples based on audit findings from the previous sample.**

**The justification for any decisions not to follow these guidelines should be documented.**

#### **Ministry Response:**

***Compliance Advisors have been trained and directed to use their judgment and knowledge of the overall functioning of the facility to adjust the number of focused and in-depth audits carried out.***

***In keeping with this recommendation, guidelines for sample size will be developed and implemented.***

### **24-HOUR REGISTERED NURSING COVERAGE**

Since July 1, 1993, a Regulation under the *Nursing Homes Act* has required that 24-hour registered nursing coverage be provided in all nursing homes. At that time, approximately 113 of the 335 nursing homes did not provide 24-hour coverage.

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Based on our discussions with Branch management, approximately 70 nursing homes did not meet this requirement at the end of 1994. The problem is most prevalent in small homes (60 beds or under). The Branch is currently working with these homes to ensure that they meet regulatory requirements. However, there is no established schedule for bringing these facilities into compliance with the requirement.

While there is currently no similar regulatory requirement for homes for the aged, the Long-Term Care (LTC) Facility Program Manual requires this staffing level for all LTC facilities.

**Recommendation:**

**The Ministry should develop a plan with specific dates for bringing all nursing homes into compliance with the regulatory requirements for 24-hour registered nursing coverage.**

**Ministry Response:**

*The Long-Term Care Facility Program Manual Working Group is in the process of developing options for a compliance framework that would be suitable for application on a province-wide basis. Once the Working Group concludes discussions on this matter, the Ministry will proceed accordingly.*

## **TIMELINESS OF COMPLAINT INVESTIGATIONS**

The Residential Services Branch investigates all complaints relating to long-term care facilities. The *Nursing Homes Act* requires that any complaint received by the Branch for which there are reasonable grounds to believe that the health, safety or welfare of a resident may be at risk shall be investigated "forthwith." There are no comparable legislative requirements for homes for the aged.

The Ministry maintains a system to record information and status relating to all complaints it receives. All incoming complaints are directed to the regional manager who, based on the nature and seriousness of the complaint, either assigns them to a compliance advisor or forwards them to the Enforcement Unit.

Branch policy states that the regional manager or enforcement manager, depending on the nature of the complaint, will set the due date for completion of the investigation. Otherwise, the due date is twenty working days after the receipt of the complaint by the regional manager or enforcement manager. However, no complaint investigation is to extend beyond thirty working days.

Our review of the complaint records indicated that most complaint investigations were completed within 20 days, as required by Branch policy.

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The Enforcement Unit generally investigates all complaints considered to be of a very serious nature, such as resident abuse causing hospitalization or sexual assault. To assess whether all complaints involving the health and safety of a resident were being investigated "forthwith," we performed a detailed review of a sample of the complaints investigated by the Enforcement Unit in 1993 and 1994. In our opinion, a significant number of these were not investigated on a timely basis given the serious nature of the complaints.

For example:

- thirteen days elapsed before staff from the Enforcement Unit visited a facility to investigate a complaint of poor nursing care and medication errors; and
- nine days elapsed before a visit was made to investigate a complaint of missing drugs and resident abuse.

The Compliance Unit investigates those complaints that are considered less serious (such as resident abuse not resulting in hospitalization or poor nursing care). We reviewed a sample of the more serious complaints investigated by the Unit in 1994. In our opinion, some of these should have been investigated in a more timely fashion.

We recognize that the Branch has made efforts to meet this "forthwith" requirement by segregating complaints, depending on their severity. However, as our review demonstrates, there are still a number of complaints investigated where this requirement is not being met. Delays in investigating potentially serious complaints could result in unnecessary risk to the residents.

#### **Recommendation:**

**The Ministry should ensure that all serious complaints are investigated on a timely basis.**

#### **Ministry Response:**

*In response to the previous provincial audit, the Residential Services Branch (RSB) has made considerable effort to re-design the complaint investigation process to ensure timely and appropriate response. The comments in the report on timing of complaint investigations are accepted. However, it is important to note that in the timeframe audited, there were very few complaints which were not completed in the timeframe set out under RSB policy.*

*RSB agrees that delays in investigating potentially serious complaints could result in unnecessary risk to the residents.*

*In keeping with this recommendation, RSB will make every effort to ensure that serious complaints continue to be investigated as quickly as possible.*

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## REFERRAL OF FACILITIES TO THE ENFORCEMENT UNIT

The Compliance Unit may refer a facility to the Enforcement Unit based upon certain circumstances. These include prevalent and recurring non-compliance with Ministry standards and criteria. The decision to refer a facility to Enforcement is initially made by the regional manager in consultation with the compliance advisor for that home.

In 1990, we reported that, in our opinion, some additional homes should have been referred to the Enforcement Unit. During our current audit, we found evidence that homes still may not always be appropriately referred to Enforcement. As of January 1995, 7 of the 335 nursing homes were being monitored by the Enforcement Unit. In our opinion, five of these could have been referred to Enforcement sooner. For example, in 1993, one of these homes had received 33 visits and was cited for 104 areas of non-compliance, but was not referred to the Enforcement Unit until October 1994.

Furthermore, we reviewed nursing homes which had a large number of visits resulting in a significant number of reported areas of non-compliance. Based upon this review and interviews with Branch staff, we identified 11 homes currently handled by the Compliance Unit that potentially could be referred to Enforcement. For example, one of these homes had been visited 60 times during 1993 and 1994 and there were 112 reported areas of non-compliance. Without consistent and timely referral of homes to Enforcement, the effectiveness of compliance management is reduced.

### **Recommendation:**

To ensure that homes are referred to the Enforcement Unit in a timely fashion, senior management of the Branch should review the need for doing so in cases of facilities with high numbers of visits and instances of non-compliance.

### **Ministry Response:**

*Although the number of non-compliances and the number of visits are considered in the decision-making for enforcement action, referral to enforcement involves more than just an assessment of numbers. There are other factors that need to be considered such as the history of operations, the nature of the findings (level of seriousness and recurrence) and the previous efforts of the facility to achieve compliance.*

*It is the responsibility of Regional Managers to maintain open communications with their staff so that issues and concerns are addressed in a timely and appropriate fashion. In almost all cases, Regional Managers are advised verbally by Compliance Advisors of issues in problematic facilities at the time of visits, or shortly thereafter. In an effort to improve the process and in keeping with this recommendation, RSB will review current systems for auditing non-compliances and enhancing the efficiency of the process for transferring homes to enforcement.*

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## PROSECUTIONS AND SANCTIONS

Various sanctions can be applied to long-term care facilities that contravene legislative requirements. These sanctions include suspension of admissions, revocation or suspension of a nursing home's licence, taking over the operation of a nursing home under the *Health Facilities Special Orders Act*, and prosecutions. It should be noted that the sanction of suspending admissions has only been available since the introduction of legislative changes in July 1994.

Our review of the use of sanctions indicated that, since 1990, few sanctions have been applied to those nursing homes that had been referred to the Enforcement Unit. During this period, there were only four instances of sanctions being applied:

- one home was prosecuted and convicted in 1992 on three counts of not having a Registered Nurse on duty during the day-shift;
- one home was notified that its licence would be revoked. The bed allocations were subsequently transferred to other nursing home operations;
- one home had its admissions suspended for one month; and
- one home had its licence revoked pursuant to the *Health Facilities Special Orders Act*. The Ministry took over the management of the home until all of the residents were relocated and the home was closed.

We examined documentation relating to 17 homes which had been handled by the Enforcement Unit since 1990. Four of these homes had been in Enforcement for over three years. One of these four homes had been in Enforcement for over five years, yet had only been prosecuted once.

At the time of our audit, a fifth home had been in Enforcement for 12 months during which it had received 54 visits and had 121 areas reported for non-compliance. No sanctions had been applied against this facility.

Ministry Enforcement staff have indicated that limited client benefit is achieved through prosecutions which are protracted and costly. However, without the use of sanctions, the deterrent effect inherent in the enforcement process is reduced. The threat of sanctions must be backed up with action, where necessary.

With the introduction of the suspension of admissions sanction, the Branch is now provided with an additional alternative. An advantage of this new sanction is that it can be applied without long delays and the resulting potential loss of income provides a continuing incentive for facilities to take timely corrective action.

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**Recommendation:**

The Ministry should assess the effectiveness of sanctions and consider more frequent use of a variety of sanctions.

**Ministry Response:**

*The decision to apply any sanction is made after thorough review of circumstances and the consequences of taking such actions. The position of the Long-Term Care (LTC) Division is that enforcement monitoring and sanctions should be used to ensure that individual facilities achieve compliance with the appropriate legislation and Ministry standards, and not as punishment to the operators.*

*The LTC Division is fully prepared to apply whatever sanctions are necessary in order to protect the health, welfare and safety of residents. The recommendation for more frequent use of the newly introduced sanction of suspending admissions is acknowledged and will be taken into account by RSB when considering future application of sanctions.*

## **FIRE SAFETY INSPECTIONS**

In our 1990 audit, we reported that the Branch was not asking the Fire Marshal's Office if there were any concerns which might affect the decision to renew the licence of a nursing home.

The long-term care legislation continues to contain references to fire safety standards. For example, Regulations under the *Homes for the Aged and Rest Homes Act* and the *Charitable Institutions Act* require that annual fire inspections be performed by an officer authorized to inspect under the *Fire Marshals Act*.

We selected a representative sample of facilities to determine if Fire Marshal reports were on file with the Ministry. We found that Fire Marshal reports were not being routinely received. We contacted the Office of the Fire Marshal and were informed that all facilities in our sample had been inspected within the past 12 months.

Although we recognize that the Fire Marshal has the primary responsibility for performing fire inspections, the Branch has a continuing obligation to ensure that the safety of residents in facilities is maintained.

On March 31, 1995, the Branch issued a memorandum to all compliance advisors requesting them to confirm during the annual review that a fire safety inspection has been completed. Any facility without a fire inspection is to be reported to the regional manager for follow-up with the Fire Marshal.

## **OTHER MATTERS**

### **FACILITY STAFF QUALIFICATIONS**

Currently, health care aides provide most of the day-to-day personal and nursing care to residents of long-term care facilities.

In 1986, the Nursing Homes Residents' Complaints Committee noted that while the qualifications of registered nurses were set by the College of Nursing, there were no standard qualifications for health care aides. The Committee recommended that the Ministry develop new qualifications for all nursing home staff.

The Ministry, employers and consumer groups have recognized that the need to update the training of workers is one of the most critical factors necessary for the delivery of higher quality care and services. It was noted that training and preparation for working in a facility had not kept up with the changing needs of residents. Care requirements have drastically changed with the increase of older and more physically and mentally ill residents in long-term care facilities. This trend is expected to continue.

Similarly, employers also expressed concerns about not being able to rely on the skills of workers, since there was no method to evaluate the training provided by the various educational institutions. Training programs were not consistent and varied considerably among facilities.

In 1993, the Ministry established a Training Resource Group to develop a new training program for workers who provide personal care and support to people living at home and in long-term care facilities.

In October 1994, the Training Resource Group issued a report to the Minister of Health with 55 recommendations. At the time of our audit, the Ministry was circulating the report and recommendations to the various interested parties for their comments.

Nine years have elapsed since the Nursing Home Residents' Complaints Committee recommended the development of standard qualifications for health care aides. We are concerned with the slow progress in this area and will follow-up on this issue in the near future.

## REST AND RETIREMENT HOMES

Rest and retirement homes are privately owned facilities which may provide care, including assistance with daily living activities as well as nursing care. Recent amendments to the *Rent Control Act* require rest and retirement homes to register with the Province, but, unlike nursing homes, they are not provincially licensed, regardless of the number of residents, the degree of disability of the residents or the level of nursing care they require.

In November 1990, a Commission was appointed under the *Public Inquiries Act* to conduct a review of unregulated residential accommodation in which vulnerable adults reside. In 1992, the Commission of Inquiry into Unregulated Residential Accommodation issued a report containing 148 recommendations. Several of the recommendations dealt with the issue of private rest and retirement homes operating as unlicensed nursing homes.

The report recommended that the Residential Services Branch develop a precise legal definition of a "nursing home" so that it is clear which premises offering "nursing care" require a licence. The Commission further recommended that no rest home operator be permitted to provide more than a threshold amount of nursing care to any resident of that home.

To date these two recommendations have not been addressed. The *Nursing Homes Act* defines a nursing home as "any premises maintained and operated for persons requiring nursing care or in which such care is provided to two or more unrelated persons." The

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definition specifically excludes facilities governed under other legislation. For example, premises created by the *Homes for the Aged and Rest Homes Act* or the *Public Hospitals Act* are exempt from the *Nursing Homes Act*. However, there is no similar exclusion for private rest and retirement homes.

The legal definition of a "nursing home" is important because section 4 (1) of the Act states "that no person shall establish, operate or maintain a nursing home except under the authority of a licence issued by the Director."

**Recommendation:**

**The Ministry should develop a precise legal definition of a "nursing home" and "nursing care" to clarify which premises are required to be licensed under the *Nursing Homes Act*.**

**Ministry Response:**

*Definitions of "nursing home" and "nursing care" are currently provided in the Nursing Homes Act. In keeping with this recommendation, these definitions will be reviewed for clarification in the next phase of legislative reform.*

*The issue of government presence in rest/retirement home settings has been addressed in the Commission's report. That report suggests that the form of regulation and inspection used in LTC facilities is not appropriate for the rest/retirement home sector.*

# Private and Hospital Laboratories and Specimen Collection Centres

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Laboratory tests assist the medical community in the diagnosis, prevention and treatment of disease. Specimen collection centres gather specimens and forward them to the laboratories for testing. Most laboratory companies operate a number of such centres.

The *Laboratory and Specimen Collection Centre Licensing Act* and its Regulations prescribe the conditions for owning, operating and licensing laboratories and specimen collection centres. At the time of our audit there were 161 private and 224 hospital laboratories licensed to perform tests and 268 private and 43 hospital facilities licensed to collect specimens. Hospital and private laboratories receive approximately \$1 billion annually from the Ministry for the services they provide.

The Act requires the Minister to appoint a Director of Laboratory and Specimen Collection Centre Licensing to approve and issue licences to laboratories and specimen collection centres. The Director of the Ministry's Laboratory Services Branch has been assigned this responsibility.

The Act also gives the Ministry responsibility for the physical inspection of all licensed facilities as well as assessing the proficiency of laboratories in analyzing specimens. Ministry inspectors conduct on-site reviews of facilities, staffing, equipment, quality control and documentation. The Ontario Medical Association (OMA) has been designated by Regulation as the agency to carry out examinations and evaluations of laboratory proficiency in the performance of tests. In 1993/94 the Ministry paid the OMA approximately \$2.3 million for its Laboratory Proficiency Testing Program. Licence and proficiency testing fees collected from private and hospital laboratories totalled \$1.3 million.

The Act states that when the OMA's Laboratory Proficiency Testing Program staff report that a laboratory's performance of one or more tests does not meet the generally accepted standard of proficiency, the Director of Laboratory and Specimen Collection Centre Licensing may impose such conditions upon the licence as the Director considers necessary, including prohibiting a laboratory from conducting such tests.

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In October 1992, the Ministry created a Laboratory Services Review Committee to conduct a comprehensive review of the current system of providing laboratory services. The Committee's February 1994 report contained a number of recommendations for improving the laboratory system. These included the development of utilization guidelines, quality improvement programs, changes to legislation and the creation of a centralized database.

The Ministry has developed a five-year Implementation Plan for the Committee's recommendations. It contains 14 activities with targeted completion dates. These include:

- identifying needed changes to legislation for licensing and monitoring;
- developing and implementing a quality improvement program with the assistance of the Ontario Medical Association's Laboratory Proficiency Testing Program staff; and
- evaluating the effectiveness of the quality improvement initiatives.

At the time of our audit, the Ministry was in the process of establishing advisory groups and committees to implement the Committee's recommendations.

## OBJECTIVE AND SCOPE

Our audit objective was to assess the adequacy of procedures to ensure compliance with legislation and policies pertaining to the licensing and monitoring of laboratories and specimen collection centres.

The scope of our audit included an examination of the management practices and operational controls in the Laboratory Services Branch. In addition, we met with representatives of the Ontario Medical Association to discuss the operations of the Laboratory Proficiency Testing Program. We also reviewed the involvement of the Ministry's Audit Branch in the audit of billings and private laboratory records.

## OVERALL AUDIT OBSERVATIONS

In general, procedures to ensure that laboratories and specimen collection centres were properly inspected were adequate. However, some improvements are required. In particular, the Ministry needs to:

- encourage the Ontario Medical Association to streamline the Laboratory Proficiency Testing Program (LPTP) to make it more efficient in improving laboratory performance;
- improve the timing of reporting results from the LPTP to the Director of Laboratory and Specimen Collection Centre Licensing so that conditions can be imposed, when necessary, on licences of laboratories which have not met accepted standards; and
- correct deficiencies in licensing legislation to bring all specimen collection centres under the same quality assurance provisions.

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# AUDIT OBSERVATIONS

## INSPECTIONS, LABORATORY PROFICIENCY TESTING AND LICENCE RENEWALS

### MINISTRY INSPECTION PROCESS

Ministry inspections of laboratories and specimen collection centres are conducted in an 18- to 24-month cycle. To assist the inspectors in performing consistent reviews, the Ministry's Laboratory Licensing and Inspection Service has developed standardized inspection checklists. These checklists address both legislative requirements and good laboratory practices.

At the completion of each visit, inspectors prepare a report listing any observed deficiencies. These observations, along with recommendations for improvement, are forwarded to the appropriate laboratory or specimen collection centre. Each facility is required to provide written responses outlining its planned corrective action.

Our review of the inspection process disclosed the following weaknesses:

- an established, regular inspection cycle enables laboratory management to anticipate and prepare for inspections. This reduces the Ministry's assurance that laboratory practices observed during inspections are consistent with those followed between inspections;
- an overall conclusion on the performance of the laboratory or specimen collection centre inspected is not included in the inspectors' reports. Without this conclusion, it is difficult to determine the significance of the observations and recommendations. Criteria should be established to ensure consistency in conclusions; and
- the Laboratory Licensing and Inspection Service relies on the inspected facility's written response and does not follow up to ensure corrective action has been taken until the next scheduled inspection, which could be as much as two years later. Accordingly, corrective action may not be implemented until close to the next inspection or, possibly, not implemented at all. We noted that, in two of fifteen inspection reports we sampled, previously cited problems had not been corrected between inspections.

#### **Recommendation:**

**To ensure that laboratories are operating in accordance with acceptable standards, the Ministry should revise its inspection procedures:**

- to make the inspection cycle less predictable;
- to require inspectors to provide an overall conclusion on the performance of a laboratory based on pre-established criteria; and
- to provide timely follow-up on required corrective action.

#### **Ministry Response:**

***The Ministry agrees with these recommendations.***

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*The inspection cycle has been made less predictable by the introduction of random inspections into the routine inspection schedule. At present, labs are inspected about every 18 months. To make the inspection cycle less predictable, randomly selected labs will be inspected at shorter intervals, that is, less than 18 months.*

*Inspectors are now providing an overall ranking and conclusion on the performance of a laboratory in their inspection reports based on criteria that will be established. The criteria reflect the number of observations, the quality of the observations and the type of observations.*

*There will be additional follow-up on required corrective action. At present, follow-up inspections are done within six months on all labs with more than 20 observations. Additional follow-up inspections will be done based on the ranking and conclusion results of the inspection reports.*

*As the above activities will affect the workload of the inspection section, they will be introduced to the degree staffing and funding constraints permit.*

## **LABORATORY PROFICIENCY TESTING**

Staff from the OMA's Laboratory Proficiency Testing Program (LPTP) assess a laboratory's proficiency in analyzing by sending test specimens to licensed laboratories and analyzing the results. Feedback is provided to the managers of the tested laboratories. Test results that do not meet the accepted standards of proficiency, either on a single survey or over a period of surveys, are reviewed by LPTP specialists. Formal action plans are then developed to assist laboratory management in improving testing proficiency.

The process of assisting laboratories may go through several internal committees of the OMA and may include remedial action such as technical and educational assistance or conducting an on-site consultation.

As can be seen from the "Decision Path for the Assessment of Laboratories" (Appendix A), the assessment process appears to be very complex and of questionable efficiency.

If a laboratory's performance does not improve after education and other remedial steps, a report may be made to the Conjoint Committee, which consists of representatives from the Ministry, including the Director responsible for licensing of laboratories, and the OMA and is chaired by the Assistant Deputy Minister, Health Insurance and Related Programs. The Conjoint Committee is only advised of laboratories which the LPTP considers to be non-remediable. After reviewing the information presented, the Committee may declare a laboratory non-proficient in specific tests.

We were advised by Ministry staff that providing technical assistance to a laboratory may take up to a year. During that time, private laboratories undergoing remedial action can continue to perform tests and bill the Ontario Health Insurance Plan (OHIP) for their services.

More timely information on laboratories that do not meet acceptable standards would enable the Director to monitor the progress of remedial action and to impose conditions on a laboratory sooner including preventing a laboratory from performing certain tests.

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In its 1993 *Review of Activities*, the Laboratory Proficiency Testing Program reports that laboratory errors "can take on importance in the clinical setting and may well lead to unacceptable outcomes for patients."

The Ministry should be aware of those facilities which are undergoing OMA remedial action. We were informed by Ministry staff that the development of an "Early Warning System" to provide timely information on laboratories whose performance is under review by the LPTP has been under discussion with the OMA since 1983. We understand that recent discussions with the OMA to establish such a system were unsuccessful.

#### **Recommendation:**

**In order to impose conditions on a laboratory on a timely basis, the Director should be advised as soon as possible of all laboratories which have not met accepted standards, as well as of remedial action being taken by staff of the Laboratory Proficiency Testing Program (LPTP).**

#### **Ministry Response:**

***The Ministry agrees with this recommendation.***

***The Ministry and the LPTP are now in discussion about the ways and means of achieving earlier notification and enhanced information sharing concerning laboratories not meeting accepted standards.***

#### **Recommendation:**

**In conjunction with implementing the recommendations of the Laboratory Services Review Committee, the Ministry should encourage the Ontario Medical Association to streamline the assessment process to make it more efficient in leading to improvements in laboratory performance.**

#### **Ministry Response:**

***The Ministry agrees with this recommendation.***

***The LPTP is already examining its operations and will be proposing improvements to the Conjoint Committee. Approved changes will be incorporated into the new Memorandum of Agreement with the Ontario Medical Association.***

## **LICENCE RENEWALS**

Laboratory and specimen collection centres must renew their licences annually. Under the Act, the Director of Laboratory and Specimen Collection Centre Licensing may revoke or refuse to renew a licence where any licensed test or any specimen-taking or collecting is incompetently carried out or the owner or operator does not comply with the Act or Regulations.

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The Director's primary source of assurance of compliance with legislation is obtained from the inspection and proficiency testing programs.

At the time of our audit, licences were being automatically renewed unless the Director had been formally advised of concerns about a facility by staff of the Laboratory Proficiency Testing Program or by Ministry inspectors. In these instances, the concerns raised were usually so serious that the licences were revoked.

However, the Director is not advised of facilities with less serious problems. For example, the representatives of the OMA responsible for the Laboratory Proficiency Testing Program do not advise the Director of laboratories that are having difficulties in meeting the accepted standards of proficiency until all possible remedial actions have been exhausted.

The linkage between the licensing and inspecting functions would be improved, if, before renewing a licence, the Director were provided with information on the results of inspections and proficiency testing at that laboratory. This would provide the Director with positive assurance that a facility should have its licence renewed.

#### **Recommendations:**

**Before licensing decisions are made, the Ministry should require that the Director be advised by the Laboratory Proficiency Testing Program (LPTP) and Ministry inspectors that they are not aware of any reason why a laboratory's licence should not be renewed.**

#### **Ministry Response:**

***The Ministry agrees with this recommendation.***

***The Ministry is in discussion with LPTP staff concerning enhanced information sharing. In the interim, Ministry inspection reports will be reviewed prior to the Director approving laboratory licence renewals.***

***The Ministry is proposing to enhance its ability to obtain improved information from laboratory operators. LPTP staff are now working in concert with Laboratory Licensing and Inspection staff to improve communications between the two organizations.***

## **OTHER SPECIMEN COLLECTION OPERATIONS**

Since the introduction of licensing legislation in 1972, the Minister has approved and licensed one new private facility. During this period, approval has been given to convert certain laboratory licences to specimen collection centre licences.

The Act defines a specimen collection centre as "a place where specimens are taken or collected from the human body for examination to obtain information for diagnosis or treatment, but does not include a place where a legally qualified medical practitioner is engaged in the practice of medicine or surgery." This allows physicians or the physicians' employees to collect specimens from their own patients without requiring them to obtain a licence.

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As part of a 1985 Supreme Court of Ontario decision, the definition of "place" was ruled to mean any building which contains a physician's office. This decision was further expanded by the courts to allow employees of private laboratories to collect specimens in a physician's office or any other place in which a physician is engaged in the practice of medicine.

While there are nearly 270 private, licensed specimen collection centres, recent Ministry estimates indicate that there are over 250 physicians' offices where commercial, unlicensed specimen collection centres have been established. Although these operations serve the same purpose as licensed specimen collection centres, they are not subject to the licensing and inspection provisions of the Act.

The Laboratory Services Review Committee recognized in its February 1994 report that there was a need to change legislation and regulations. Specifically, it recommended the "extension of licensing to all laboratories and specimen collection centres in the system including those in private physician offices to identify all the providers in the existing system and bring them under the quality assurance provisions of inspection and proficiency testing."

#### **Recommendation:**

**The Ministry should take action to bring all specimen collection centres under the same quality assurance provisions by correcting the deficiencies in the licensing legislation.**

#### **Ministry Response:**

***The Ministry agrees with the intent of this recommendation.***

***The Laboratory Services Review has addressed the issue of quality improvement, service delivery, and legislative and policy framework, among other things. It identified a need for a Quality Improvement Program to strengthen the quality improvement processes and activities covering all aspects of delivery of laboratory services, a need to restructure the delivery mechanisms in order to improve efficiency and effectiveness, and a need to review/modify the current legislation and policies governing licensing, quality improvement, changing roles of providers, and introduction of rapidly evolving technology.***

***The Ministry has developed an implementation strategy based on the recommendations of the Review. An Implementation Secretariat and an External Advisory Council have recently been established to assume the responsibility of making the appropriate changes in the system over the next few years. The priority areas for action to take place within the next 12 months include:***

- ***a centralized database and interactive information system;***
- ***a Quality Improvement Program;***
- ***a service restructuring framework and guidelines;***
- ***a human resource management plan; and***
- ***enhancement of current legislation and policies.***

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*The last item listed above includes revising current licensing scope/processes to include physician office specimen collection and testing, developing policy to govern the introduction and incorporation of point-of-care testing, and strengthening the conflict-of-interest guideline enforcement.*

*An expected outcome of that process would be a plan to license all appropriate specimen collection and testing activities, resulting as well in mandated quality assurance for these activities. It is understood that modifications of the current legislation will need to take place.*

## PHYSICIAN OFFICE LABORATORIES

The Act states that qualified medical practitioners may conduct simple laboratory procedures without a licence for the purpose of diagnosing and treating their patients. These simple procedures are specified in the Regulation to the Act. However, another section of the Regulation exempts physicians from the section of the Act which refers to simple procedures. In other words, while the Act allows physicians to perform only simple procedures, the Regulation contradicts the Act by, in effect, allowing physicians to perform any procedures.

According to Ministry records for the 1992/93 fiscal year, physicians received \$15 million from OHIP for laboratory tests performed on specimens taken from their patients. Simple procedures as prescribed in the Regulation accounted for \$7 million while \$8 million was for tests normally conducted by licensed laboratories. Since physicians are not licensed under the Act, they are not subject to the same inspection and proficiency testing procedures as laboratories.

Ministry staff informed us that they were aware of this situation. At the time of our audit, no corrective action had been taken to address the inconsistency between the Act and the Regulation.

### **Recommendation:**

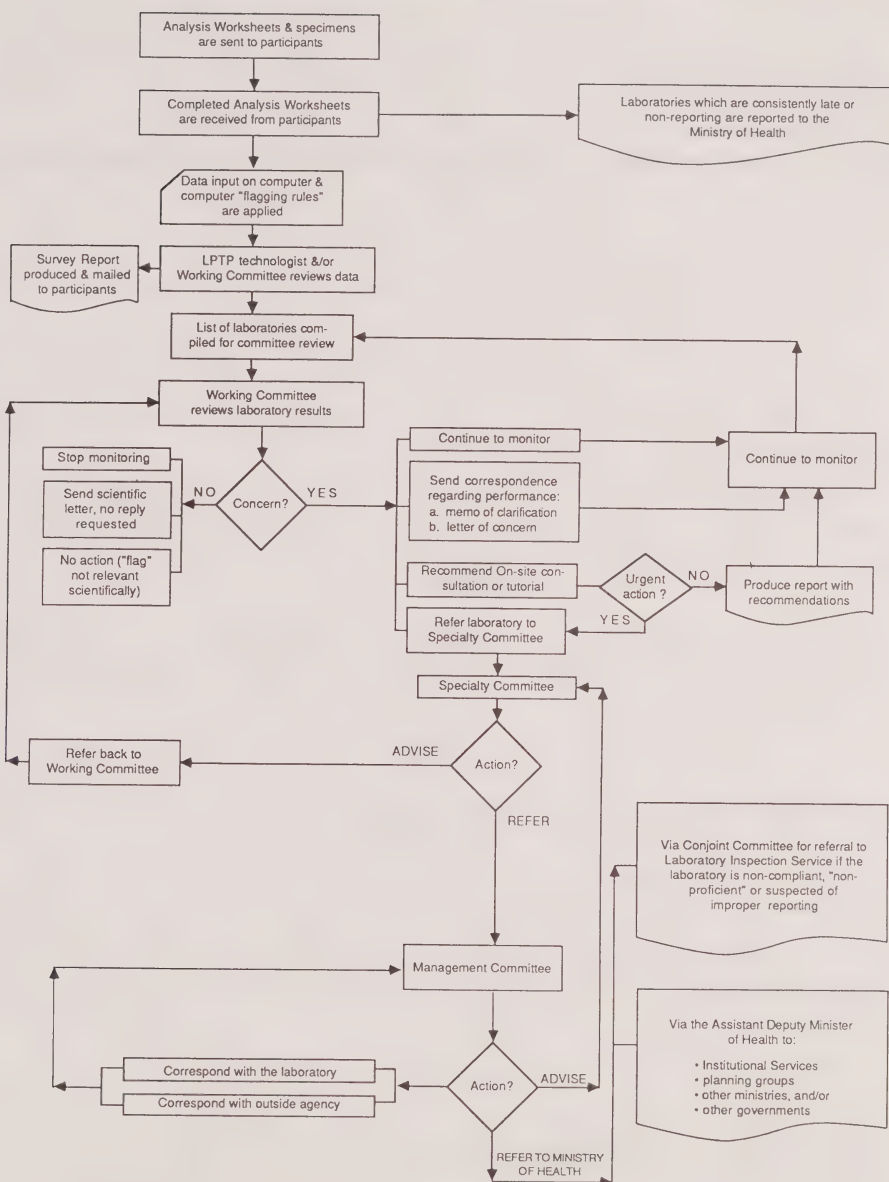
**The Ministry should determine what laboratory tests can be conducted by physicians and then resolve the inconsistency between the Act and the Regulation.**

### **Ministry Response:**

***The Ministry agrees with this recommendation.***

***As in the previous recommendation, the plan is to address this issue in conjunction with the others over the next 12 months. The process is being put in place through the Secretariat and the Advisory Council.***

# APPENDIX A



*Decision Path for the Assessment of Laboratories*

Reproduced from "The Laboratory Proficiency Testing Program Guide," February 1988. Permission has been granted by the Laboratory Proficiency Testing Program, Ontario Medical Association, 501-250 Bloor Street East, Toronto, Ontario M4W 1E6.

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## MANAGEMENT BOARD SECRETARIAT

# CORPAY

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Management Board Secretariat is responsible for the government's centralized corporate payroll system, CORPAY, which was implemented in all ministries and several agencies during the 1992/93 fiscal year. Approximately 85,000 employees of the Ontario Public Service are paid biweekly through this system. The payroll processed by CORPAY for ministries and agencies during the 1994/95 fiscal year was \$4 billion.

In our 1992 *Annual Report* to the Legislature, we reported on the progress of and justification for the development of the new corporate payroll and human resources systems. We noted that the development of the new system had not been economically justified and that major components of the system were slow to be developed.

Management Board's Human Resources Information Services Branch is responsible for operating and maintaining the government's corporate human resources systems including CORPAY. At the time of our audit, the Branch employed approximately 75 staff. The Branch spent \$8.1 million in the 1994/95 fiscal year.

Individual ministries employ their own staff to perform general payroll functions including the compilation and input of payroll information, verification of payments and recording absences. Ministries and agencies are ultimately responsible for ensuring that the payroll is processed correctly.

## OBJECTIVE AND SCOPE

The objective of our audit was to assess whether CORPAY has proven to be an efficient and reliable payroll system.

The scope of our audit included discussions with Management Board officials, a review of relevant documentation, and interviews with audit and human resources management and payroll staff at seven ministries. We also met with representatives of the Human Resources Council and the Ontario Pension Board.

## OVERALL AUDIT OBSERVATIONS

Our interviews with human resources and payroll personnel from the seven ministries selected revealed that they were generally satisfied with the reliability of the CORPAY system. However, the ministries noted that there is still considerable room for improvement in the efficiency of the administration of payroll and its related activities. Management Board needs to assist ministries in addressing many of these inefficiencies.

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## DETAILED AUDIT OBSERVATIONS

In 1987, approval was received to develop a new integrated payroll and personnel system at an estimated cost of \$13.7 million. This system was intended to provide enhanced management information in addition to integrating the payroll, pension and attendance systems. However, by 1989 the attempt to develop the integrated system proved unsuccessful. The development experienced significant delays and cost increases partially due to changing technology and the inability to get approval from all ministries. Consequently, the project was scaled down to provide a simplified payroll system at an additional approved cost of \$16.4 million.

The development of the new payroll system (CORPAY) was completed and implemented in all ministries and several agencies during the 1992/93 fiscal year.

### CORPORATE PAYROLL SYSTEM

The ministries reported that CORPAY is generally a reliable payroll system and, compared to the former payroll system, provides most of the improvements expected from a decentralized on-line payroll system. These improvements include ready access to certain up-to-date payroll information, immediate updating of employee records and year-to-date payroll information which is provided biweekly to all employees. Corrections and changes can now be immediately entered into the system at the ministry level. The former system required all ministries to accumulate and batch such information which was sent to Management Board to be entered into the payroll system.

The ministries also reported that CORPAY satisfactorily calculates basic pay and benefits and that employees are paid the proper amounts in a timely manner. However, the ministries noted that there is still considerable room for improvement in the efficiency of the administration of payroll and its related activities. Overcoming many of these inefficiencies will require future joint efforts by Management Board and the ministries. For example, the calculations of retroactive salary awards, which could be automated, are performed manually by ministry payroll staff. The calculations can be laborious and prone to error.

The ministries also stated that, although CORPAY's level of reliability and accuracy at processing the biweekly payroll was satisfactory, the ministry-supplied information contained in the employee database, such as the employee's work history, was not as reliable. Consequently, a review, termed the *Pension Data Purification Project*, is currently under way to ensure that personnel data are accurate, complete and can be used to calculate pension entitlements.

In January 1994, the Human Resources Council, a forum for ministry and agency human resources directors, decided to review existing ministry business practices and initiated several *Business Process Review Projects*. One of the projects initiated, the *Workforce Information Management Project*, will review payroll, position and attendance management administration, as well as employee benefits and pension administration. The goals of the project are to identify significant cost savings and improve service and productivity in all areas of workforce information management. Each of the project's subgroups is expected to report back to the Council by March 1996. Management Board is working closely with the Human Resources Council on this project.

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We will follow up on Management Board's efforts to address the problems identified by the *Pension Data Purification Project*. We will also follow up on the Board's efforts to address any CORPAY related issues identified by the *Workforce Information Management Project*.

## PAYROLL PROCESSING ALTERNATIVES

In our report to the legislature in 1992, we noted that the development of the new payroll system had not been economically justified and alternative payroll options had not been adequately assessed. For example, during the approval stage of the development of CORPAY, the use of private organizations to process the payroll was investigated and found to be more economical than the proposed new payroll system.

However, the outsourcing payroll option was not recommended primarily because the services offered were not for an integrated payroll, pension, attendance and human resources system. Although enhancements have subsequently been made to CORPAY in such areas as position, classification and vacancy management, payroll was the only major component of the integrated system that was initially developed and implemented. Since CORPAY was implemented, outsourcing organizations have diversified, and integrated systems are now available. Consequently, the primary reason for not recommending the outside alternative is no longer applicable.

Through the Human Resources Council's *Business Process Review Project*, ministries are reviewing payroll administration and processing. Recommendations to enhance CORPAY and further automate the payroll process may result from the Council's initiative. The ministries noted that since participation in CORPAY was mandatory, they were not in a position to consider other alternatives such as outsourcing. However, the majority of ministries interviewed would consider using such alternatives if CORPAY were not mandatory.

### **Recommendation:**

**Management Board should assess other payroll alternatives, such as outsourcing and weigh these alternatives against the cost of maintaining CORPAY.**

### **Response:**

***Management Board endorses the recommendation that alternative delivery options should be evaluated and considered.***

## HUMAN RESOURCES INFORMATION SYSTEMS

In addition to processing information for employee salaries and benefits, a payroll system is often the key information source for a variety of other personnel systems. Since the inception of CORPAY, there has been an increased demand for accurate and reliable workforce information. This has resulted from such pressures as downsizing the public service, organizational restructuring, employment equity, social contract requirements and legislative changes.

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CORPAY data are used for a human resources information system purchased by Management Board in 1994 and subsequently installed at 14 ministries and agencies. This system allows ministries to analyze payroll information and add data not required solely for payroll purposes. The majority of ministries interviewed felt that the human resources information system supported by Management Board did not meet all of their information processing needs. Consequently, to meet those needs, the ministries and agencies use several other systems.

In addition to human resources information processing, each ministry must maintain a separate attendance recording system which keeps track of employee vacations, sick time, leaves and other staffing information. In May 1995 Management Board began to support one attendance reporting system but not all ministries and agencies currently use this system.

In general, we noted a lack of integrated, standardized, personnel-related computer systems. Further examples of the many human resources systems currently in use include CORPAY's predecessor payroll system which is still available for employment history and pension information. Also, the pension payroll system, which was designed to process payroll for over 35,000 pensioners, was not implemented by the Ontario Pension Board. However, the pension system is maintained to serve the 300 pensioners paid directly by Management Board.

#### **Recommendation:**

**Management Board, in conjunction with the ministries and agencies, should rationalize the many systems currently in use and support specified systems for government-wide use. The impact that any outsourcing may have should also be considered.**

#### **Response:**

***In light of the resource constraints in Management Board and the ministries, Management Board will work together with the Human Resources Council to rationalize the many systems currently in use.***

## **OTHER MATTERS**

During the course of our audit, several administrative matters were noted and have been brought to the attention of senior management for their consideration. We received satisfactory responses and proposals to address these matters and we will follow up on the Board's actions taken when sufficient time has elapsed for implementation.

# Inventory of Information Technology Assets Project

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The Corporate Review Steering Committee (CRSC) was formed in September 1992 and comprised a number of deputy ministers reporting to the Policies and Priorities Board (P&P) of Cabinet. One of its major objectives was to investigate cost savings initiatives. The CRSC solicited proposals from ministries to achieve major savings.

In October 1992, the Business Improvement and Information Technology Division (BIITD) of Management Board Secretariat (MBS) proposed the concept of a master contract as a means of delivering information technology services in a manner which would provide the government with significant revenues while maintaining or improving the quality of service. The proposed master contract would have involved the sale of the government's existing information technology assets to a consortium of private-sector vendors. The consortium would then have leased the equipment back to the government and have had the right to supply and manage most future information technology products and services for a period of ten years. A preliminary business case was submitted to CRSC in November 1992. On December 14, 1992, P&P directed BIITD to continue investigation of the master contract concept.

In early 1993, BIITD continued further investigation of the master contract concept and engaged a private-sector consulting firm to:

- (a) conduct a certified inventory count of the government's information technology assets;
- (b) develop an asset inventory system; and
- (c) prepare an analysis report with recommendations.

Among other things, the certified inventory was undertaken to provide support for the potential negotiation of a master contract for the government's information technology needs. The consulting firm was paid \$3.6 million for the initial work and \$625,000 for additional work for a total project cost of \$4.225 million.

BIITD claimed that by centralizing management of the government's information technology assets, these assets would be used more cost effectively. BIITD also claimed that a large one-time payment to the government of up to \$500 million could be expected upon signing of the master contract, based on the current value of government information technology assets and the value of the future business relationship.

After the inventory count was well under way, a number of concerns and other issues relating to the master contract proposal became more apparent. While the count was allowed to proceed to completion, Management Board of Cabinet approved a recommendation on July 5, 1993 that MBS investigate alternative delivery options. At the same time,

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Management Board of Cabinet approved an expanded mandate for the Information Technology Directions Committee (ITDC), a group of deputy ministers, to provide ongoing strategic direction on all corporate information and technology initiatives. By the fall of 1993, the certified inventory count was completed but the master contract concept was no longer being actively pursued. The ITDC and the Information Technology Management Committee (ITMC), a group of ADMs, focused on developing an alternative and more comprehensive information technology strategy for the Ontario government. This information technology strategy was approved by Management Board of Cabinet on June 13, 1994.

## 3.12

### SCOPE AND OBJECTIVE

We reviewed the Inventory of Information Technology Assets Project to assess whether good business practices—including those outlined in Management Board of Cabinet's Directives and Guidelines—were followed in the justification and planning of this project, the acquisition of the consultants, the overall management of the project, and in the use of the final results.

### OVERALL AUDIT OBSERVATIONS

We found little evidence that the costs, risks and alternatives were explored in sufficient depth prior to the initial commitment of \$3.6 million and significant internal government resources to the inventory count project. Additionally, we noted that the business case for the master contract contained no information to support the stated \$500 million in expected proceeds. However, we found that once the inventory count was under way, BIITD made a reasonable effort to monitor the progress of the project and address the problems that arose on a timely basis.

We were informed that after the inventory count was under way, further analysis of options continued, and on July 5, 1993, Management Board of Cabinet approved a recommendation that the scope of the investigation be expanded to cover a broader range of alternate delivery options. MBS informed us that in light of that direction and concerns over labour relations issues related to the master contract, the fiscal viability of the proposal and the complexity of implementing the master contract through private-sector partners, further work on the master contract concept was not undertaken. Subsequently, the focus shifted to the development of an information technology strategy for the Ontario government. This information technology strategy was approved by Management Board of Cabinet on June 13, 1994.

Because the master contract was not pursued, the results of the \$4.225 million certified asset inventory have been of limited use. While other measures have been undertaken to improve overall information technology management in the Ontario government, MBS never did document why the master contract option was not pursued.

In our detailed report issued to MBS, we made several recommendations dealing with project justification, acquisition of consultants, project management and use of project

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results. MBS generally agreed with our recommendations because they considered this to be an atypical project within MBS.

***Management Board Secretariat Response:***

***Management Board Secretariat (MBS) accepts the recommendations made with respect to project justification, acquisition of consultants, project management and use of project results.***

*It should be noted that this project had an atypical approval process through the Corporate Review Steering Committee (CRSC). As a result of the tight timelines imposed by the CRSC, the preliminary business case did not include an in-depth cost, risk and alternative analysis. Anecdotal information, based on private-sector experience, was provided to support the estimated \$500 million expected benefits. In the future, MBS will ensure that its existing justification and approval process is rigorously followed.*

*The CRSC cost savings process was driven by the desire to identify paybacks before the end of the fiscal year 1993/94. On December 14, 1992, based upon the preliminary business case, the CRSC recommended to the Policy and Procedures Board (P&P), and P&P approved development of a more detailed business case to assess the viability of the master contract. The Business Improvement and Information Technology Division's (BIITD's) plans for the proposed master contract identified a certified inventory as an essential first step to achieve the savings within the timeframes established by the CRSC.*

*With approval from Management Board of Cabinet, the certified inventory began in February 1993 in parallel with the development of the detailed business case. Although MBS did not document why the master contract was not concluded, there was general agreement that:*

- the one-time benefit of \$500 million could not be achieved without incurring ongoing financial liabilities;*
- there were concerns about establishing and managing a private-sector partnership of this scale and complexity and the associated labour relations issues; and*
- the Information Technology Directions Committee was focusing on other directions regarding the strategic management of information technology in the Ontario government.*

# Non-Profit Housing Programs

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3.13

## PROGRAM OVERVIEW

The Ministry's overall mandate for housing is to "meet Ontario's needs for affordable, safe, secure and suitable homes." One of the ways in which the Ministry meets this mandate is through its non-profit housing programs. The primary objective of non-profit housing programs is to provide a predictable supply of community-based, non-profit, quality housing at a reasonable cost.

Since an agreement was signed with Canada Mortgage and Housing Corporation in 1986, the Ministry has delivered over 36,000 units under the federal/provincial non-profit housing program as well as over 42,000 subsidized housing units under provincial non-profit housing programs such as Homes Now, Project 3000, Project 3600 and Project 10,000. As at December 31, 1994, a further 25,000 units were in various stages of development, mostly under the Ministry's 20,000-unit jobsOntario Homes Program.

These programs all operate in essentially the same way. Sponsor groups such as private non-profit corporations, municipal non-profit corporations and co-operative corporations apply to the Ministry to buy or build, own and operate a housing project for a blend of rent-geared-to-income and market rent tenants selected from their respective communities. This economic mix of tenants is deemed essential to avoid the high concentrations of economically disadvantaged tenants that have occurred in government-owned housing in the past.

The Ministry provides development assistance funding to organize and design the projects and guarantees private sector mortgage advances during and after construction. Once a project is complete and operating, a monthly subsidy is paid based on an approved budget covering net operating costs, including the mortgage payment. Agreements to own and operate the project in accordance with specific terms and conditions generally last 35 years.

As at December 31, 1994 outstanding financing on completed projects amounted to approximately \$8 billion. Total subsidy payments in fiscal 1994/95 were \$783 million. When all units are completed and under subsidy, annual subsidies will exceed \$1 billion annually. The following chart shows the status of delivery as of December 31, 1994.

**Status of Delivery of Post-1985 Non-Profit Housing Units  
as of December 31, 1994**

<u>Programs</u>	<u>Planned But Groups Not Yet Selected</u>	<u>Under Development/ Construction</u>	<u>Completed/ Receiving Monthly Operating Subsidy</u>	<u>Total to be Subsidized</u>
Provincial Programs				
P3000/3600		74	6,106	6,180
Homes Now (I+II)		668	26,273	26,941
Quickstarts + P10,000		2,892	9,215	12,107
JobsReady		1,412	778	2,190
JobsOntario Homes	3,727	12,083		15,810
JobsOntario Homes - Aboriginal	<u>1,556</u>	<u>444</u>		<u>2,000</u>
Total Provincial Units	5,283	17,573	42,372	65,228
Federal Provincial Programs		<u>1,888</u>	<u>36,095</u>	<u>37,983</u>
<b>Total Units</b>	<u>5,283</u>	<u>19,461</u>	<u>78,467</u>	<u>103,211</u>

Under the federal/provincial program, Canada Mortgage Housing Corporation pays 60% of the subsidy on units it approves for rent to households that would otherwise pay more than 30% of their gross household income as rent. Federal support to Ontario for new non-profit housing has steadily declined since 1986; after 1993, no new units will be allocated. Federal subsidies amounted to \$138.2 million, or close to 20% of the \$783 million paid in the 1995 fiscal year.

The Ministry's Housing Operations Division is responsible for the development, delivery and administration of non-profit housing programs through a network of seven regional offices. Over 400 regional office staff together with about 50 staff from head office are involved solely or partly in the delivery of non-profit housing programs.

## **SUMMARY OF EVENTS FOLLOWING OUR PREVIOUS AUDIT**

Our first audit report on non-profit housing programs was issued to the Ministry in the spring of 1992 and identified several significant concerns about program administration. The Ministry responded to that report in July 1992. Both our report and the Ministry's response were published in our 1992 *Annual Report* in December 1992.

In March 1993, the Standing Committee on Public Accounts held hearings to discuss our report and, in June 1993, made several preliminary recommendations to the Ministry for comment. In December 1993 the Committee issued a report on its deliberations which contained 15 recommendations together with a copy of the Ministry's detailed action plan for addressing them. A summary of those recommendations and the status of Ministry implementation efforts as of March 1995 appears in Appendix A. One result of those hearings was that our Office made a commitment to conduct a follow-up audit of the programs in the fall of 1994.

In April 1994, questions were raised by Members of the Legislative Assembly regarding internal audits conducted by the Ministries of Health and Housing which reported questionable management and accounting practices by two jointly-funded, non-profit supportive housing groups, Houselink Community Homes Inc. and the Supportive Housing Coalition. Both Ministers requested that the Standing Committee on Public Accounts investigate the matters raised by the audits. As a result of its investigation, the Committee issued a report in June 1994, containing a further 11 recommendations aimed at improving the administration of non-profit housing programs. Those recommendations and the status of their implementation as of March 1995 appear in Appendix B.

## OBJECTIVE AND SCOPE

The objectives of our audit were:

- to assess the adequacy of existing controls over the selection, development, construction, operation and cost of post-1985 non-profit projects, including procedures to measure and report on program effectiveness; and
- to follow-up on the Ministry's progress in addressing both the concerns raised in our 1992 report and the recommendations of the Standing Committee on Public Accounts.

Our audit was conducted at the Ministry's head office and three of its regional offices. In addition, we visited 24 completed projects and met with members of both property management staff and the sponsor group's governing boards. We also visited a few projects under construction.

The Audit Services Branch of the Ministry provides internal audit services for the Ministry as well as the Ontario Housing Corporation. In conducting our audit of the non-profit housing programs, we reviewed recent, related work carried out by the Branch, including internal audits of several individual groups receiving subsidies. We found the work sufficiently comprehensive to rely on it in determining the nature and extent of our own work. In some areas we were able to reduce our scope by relying on their work.

## OVERALL AUDIT OBSERVATIONS

While the Ministry has made significant progress in addressing concerns raised and recommendations made by our Office and the Standing Committee on Public Accounts, progress in several important areas has been much slower than the Ministry anticipated. Much of its effort since our last audit has been directed towards improving controls to

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ensure cost-effective delivery of the 20,000-unit jobsOntario Homes Program. Changes have been made to previous programs as resources permitted.

We believe the most significant improvements have been to the development and construction process. Specifically:

- a more thorough and competitive group and project selection process which better ensures that sponsor groups are competent and that projects are built in areas where demand for affordable housing is greatest;
- the execution of more comprehensive performance agreements with sponsor groups before any funds are advanced, to clarify responsibilities and program requirements while the project is being planned and built;
- better control over land purchases, including location, price and environmental suitability; and
- the introduction of project design and costing guidelines to control capital costs as well as cost-saving initiatives such as mortgage refinancing.

The status of areas where progress has been much slower than anticipated relate primarily to projects now receiving operating subsidies and are set out below (see "Projects Under Subsidy," page 175). Until controls and systems are fully implemented, the Ministry cannot ensure that non-profit housing programs are delivered cost-effectively and that program objectives are achieved.

- the execution of operating agreements for private and municipal non-profit housing projects to legally establish program funding, operating and reporting requirements. Drafts have finally been agreed to after many months of negotiation, consultation and policy review and are expected to be signed by June 1995. The draft agreements greatly clarify requirements and give the Ministry sufficient authority to ensure that projects are operated as intended;
- the establishment of new and clearer reporting and audit requirements for non-profit housing projects to clarify the Ministry's expectations for sponsor groups and their external auditors. The new requirements are to become effective later in 1995 with the execution of operating agreements;
- the establishment and implementation of manageable cost guidelines for the review and control of project operating costs. While preliminary guidelines have been established, they will not be applied until 1996. There is still considerable variation in per unit manageable operating costs among similar projects. The manageable costs of four large municipal non-profit housing providers are particularly high compared to those of private and other municipal non-profit housing providers;
- the implementation of information systems necessary to collect, analyze and report important program performance information. While much development work is at or near completion, it is still not easy to obtain complete information on many aspects of program administration; and
- procedures to ensure that those in need of affordable housing are selected for assisted housing in a consistent, equitable and efficient way are not yet in place. While some pilot projects to better co-ordinate tenant placement are under way, significant changes to the way tenants are registered and selected will not be implemented until 1996.

We have made several recommendations designed to strengthen the systems and procedures necessary to control costs and to ensure program objectives are met.

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# DETAILED OBSERVATIONS

## PROJECT DEVELOPMENT AND CONSTRUCTION

As the previous chart indicates, most units under earlier non-profit housing initiatives are now under subsidy. During the three calendar years since our last audit, some 720 projects containing almost 30,000 units have been completed for committed capital costs totalling over \$4.5 billion. Our sample of projects under construction was drawn from these projects while our review of project selection and approval focused primarily on the new jobsOntario Homes program.

The jobsOntario Homes program was announced in the 1992/93 *Budget* and consists of 20,000 units which were to be allocated to sponsoring groups in seven increments between May 1993 and June 1995. Its stated purpose is to help renew the economy through job creation and affordable housing production. Delivery was subsequently collapsed to three increments with the third and final proposal call in August 1994. JobsReady was an initial allocation of 2,000 units under the program for projects that could begin construction within six months of program announcement. Between 5% and 10% of the 20,000 units are to be allocated to acquisition/rehabilitation projects, 10% to 20% are targeted for supportive housing and 2,000 units are for aboriginal housing.

Regional offices employ approximately 50 program co-ordinators and technical staff who are responsible for assisting in the overall development and construction process.

## PROJECT SELECTION

Significant improvements have been made to the Ministry's project selection process to give due consideration to community and resident needs, sponsor group skills and abilities, and sponsor group staff training requirements including:

- a more thorough provincial allocation model to determine which areas of the province are most in need of affordable housing; and
- a more competitive selection process including detailed requests for proposals, a standardized proposal evaluation system, and interviews with sponsor group members to better assess their skills, commitment and understanding of Ministry policies.

The new allocation model uses data from sources such as local housing authorities' waiting lists and Statistics Canada data on population and income levels to evaluate both need and demand for social housing.

The new project selection process includes criteria to evaluate sponsor group commitment, program knowledge, skills and experience. These criteria were refined and expanded with each wave of selections under the jobsOntario Homes Program and are designed to better ensure that groups are both willing and competent to manage the project successfully.

## LAND ACQUISITION

The Ministry has implemented new land acquisition procedures which are intended to ensure that:

- sites are selected and purchased only after the Ministry has evaluated the sponsor group and its proposal;

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- land purchased is free of any contamination or other condition that would prevent building the project;
  - wherever possible, private market sales rather than previous non-profit projects are used for comparison to establish market values; and
  - land is valued based on its intended use instead of its highest and best use.

## CONTROL OF OTHER CAPITAL COSTS

Under previous programs, including federal/provincial programs, maximum unit prices were established for each area and unit type as a means of controlling capital costs. Regions could approve projects as long as this maximum was not exceeded. Our concern with this approach was that the maximums became the norm rather than the ceiling price and did not respond to market forces quickly enough.

For the jobsOntario Homes program, the Ministry has replaced the maximum unit price system with regional design and costing medians to better control construction prices. The Ministry believes that design and costing medians will allow for flexibility, curb the tendency towards maximums and discourage price fixing.

Design medians provide guidance on items such as quality of materials, size of units and density. Costing medians are used to evaluate the construction budget submitted by the sponsor group's architect. They are developed on the basis of cost-per-bedroom, cost-per-square-metre and cost-per-unit.

Both design and costing medians are to be prepared by each region using information from previous projects in the region. These medians will be applied to all future jobsOntario Homes projects before a final commitment is made. In addition, market trends will be identified and factored into the evaluation of all jobsOntario Homes projects.

The Ministry has negotiated a standard fee structure to be used for development consultants as an alternative to tendering for these services. Tendering is not required by the Ministry because groups often establish a relationship with a consultant before submitting a project proposal to the Ministry.

The new fee structure is based on project size and services required rather than a percentage of capital costs, as was previously the case, and allows for differences in project complexity. The net impact of the change on development consulting costs will vary by region but it is not expected to result in savings overall.

Sponsor groups are required to acquire other consultants competitively. However, we were unable to assess the extent to which this requirement is complied with by the groups because the groups hold the documentation, and the Ministry does not always have copies. Ministry program co-ordinators generally monitor the amounts budgeted to ensure reasonableness.

The Ministry had documentation on file to support the selection of contractors, and we found that construction contracts were awarded to the lowest responsible bidder. We understand that in future groups will be required to provide evidence that they have selected their architect competitively, using a process similar to that used for contractors. We will follow up on the implementation and results of this requirement after it has had sufficient time to take effect.

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## SITE INSPECTIONS

Ministry site inspectors verify construction progress to support requests from contractors and architects for payment for work completed. In addition, inspectors inspect the site at least once a month for adherence to program requirements. The inspectors also evaluate and approve changes to the original plans and specifications. We found that progress verification, change reviews and site visits were being conducted as required by Ministry procedures.

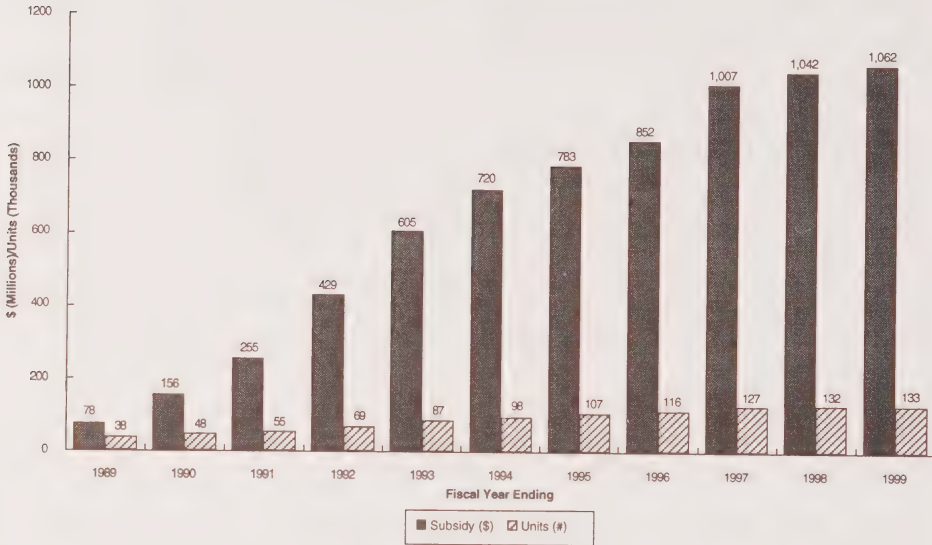
## PROJECTS UNDER SUBSIDY

As of December 31, 1994 the Ministry was paying subsidies to almost 1,000 groups to operate 1,865 projects containing over 78,000 units. These subsidies generally cover the difference between operating costs, of which mortgage, tax and utility payments account for some 80%, and rents and other revenues. For units brought under subsidy in fiscal 1992 and 1993, the annual provincial subsidy per unit, calculated using the weighted average number of units under subsidy each month, was \$10,300 and \$9,900 respectively. In 1992, we reported that annual subsidy costs were averaging about \$12,500 per unit. Declining real estate markets and interest rates have helped greatly to reduce per unit subsidies.

The growth in annual subsidies since 1985 is shown below. If all units were completed in 1998/99, as was planned at the time of our audit, there would be almost 133,000 units under subsidy at an annual cost exceeding \$1 billion. This sum includes the federal share of the cost of federal/provincial programs which amounted to \$131.7 million in fiscal 1993, \$131.5 million in fiscal 1994, and \$138.2 million in fiscal 1995.

To the extent that rent revenues may grow faster than operating costs, a large portion of which are comprised of semi-fixed mortgage payments, annual subsidies would decline over the long term.

Actual and Projected Growth in Non-Profit Housing Subsidies



Note: Figures include 26,400 units developed under programs introduced prior to 1986. Subsidies for these units were about \$29 million in fiscal 1994.

Source: Non-Profit Housing Branch, Ministry of Municipal Affairs and Housing

There are about 70 staff employed by regional offices involved in advising and monitoring sponsor groups operating projects in their regions. These include 36 housing administrators and 32 financial officers.

Since our last audit, the Ministry has been working to establish an improved accountability framework to better ensure that projects are operated cost-effectively and in accordance with program objectives. The framework consists of several components including:

- negotiating and signing operating agreements which clearly establish group and Ministry responsibilities as well as program and reporting requirements;
- accelerating the review and approval of operating budgets to reduce the backlog in approvals;
- establishing "manageable cost guidelines" and a streamlined review procedure to improve the efficiency and effectiveness of future budget reviews;
- clarifying expectations and reporting requirements for groups' external auditors; and
- increasing the scope and frequency of sponsor group audits by Ministry internal auditors.

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Our assessment of the framework and recommendations for further improvement are set out below.

## **OPERATING AGREEMENTS**

Operating agreements have been completed and executed for about half of all operating projects. Sponsor groups covered include:

- municipal and private non-profit housing corporations funded under the federal/provincial program;
- co-operative corporations under the federal/provincial program, and
- co-operative corporations under Ontario provincial programs.

After intensive negotiations with the Ontario Non-Profit Housing Association, a draft operating agreement was finalized in December 1994 for nearly 900 provincial projects operated by municipal and private non-profit housing corporations. Distribution and signing of the agreements was not expected to be completed until June 1995.

The new agreements contain a number of important sections aimed at clarifying responsibilities and protecting both group and government interests. Noteworthy is the remedies section which provides the Ministry with a variety of options for dealing with problem sponsor groups depending on the severity of the problems.

For example:

- under the co-operative agreement, groups can be required to modify their budgets if they have not complied with terms of the agreement;
- municipal and private non-profit groups can be required to take training at their own expense when events warrant such action. In addition, groups are required to provide additional information when requested to do so by the Ministry; and
- the Ministry or a third party named by the Ministry can perform a group's oversight and management responsibilities at the group's expense if the Ministry deems this necessary.

Once signed, these agreements will clarify obligations and provide the legal authority necessary for the Ministry to determine whether program funds are spent as intended and whether program requirements and objectives are being met.

The Ministry has informed us that it has developed and implemented a tracking system for the signing of the new operating agreement. At an appropriate time, we will follow up on this system to determine whether it is working as intended.

## **BUDGET AND FINANCIAL STATEMENT REVIEWS**

Sponsor groups are required to provide the Ministry with an operating budget for each project three months prior to their next fiscal year. Regional staff are to review and approve the budgets as a basis for making monthly subsidy payments.

In 1992, many projects lacked approved budgets because of filing delays or review backlogs in regional offices. Since 1992, the review backlog of older information has been substantially reduced. However, because the budget review process does not take place until Ministry budgetary constraints are finalized, the current review backlog remains significant. As of December 31, 1994, some 710 budgets were awaiting review and approval, only 16 of which were delayed by incomplete documentation.

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Sponsor groups we interviewed found that this delay made it difficult to effectively manage their financial resources. Some did not receive budget approval until after their year end.

Audited financial statements are required to be filed within five months of a group's year end. However, some 2,000 audited financial statements had not been reviewed; a third of these had not yet been received from groups. These are primarily for fiscal years ending after August 1992. Consequently, annual settlements and subsidy adjustments were not yet up to date.

We also examined the extent of reviews of financial information conducted by regional staff. In two regions no formalized guidelines existed for reviewing expenditures. The lack of guidelines for expenditure eligibility and limits results in a lack of uniformity between regions and between reviewers as to what expenditures are approved.

To illustrate, one group wished to use surplus funds to purchase televisions and video cassette recorders for residents. While the request was denied, the eligibility of the above expenses is not clear.

We also noted inconsistencies in expenditure limits. For example, the approved budget approval for snow removal costs varied considerably within the same area. We found no evidence of this variance having been questioned or explained.

Central Region has established a manual which provides some guidelines for annual budget reviews. The guidelines helped reviewers ensure that budgets were approved within an acceptable expenditure range. However, they did not address expenditure eligibility or classification.

To improve the consistency and effectiveness of project budget review and approval, the Ministry has formulated draft guidelines to help identify projects which had high manageable operating costs (excluding mortgage payments, taxes and utilities) compared to the median cost of similar projects. However, because audited financial statement data were limited for the 1993 fiscal year, the 1993 budgets were used and included only those projects at or beyond the second year of operation. These cost guidelines will not be finalized for use in reviewing budgets until 1996. More current data on actual costs are needed before manageable operating cost guidelines are finalized.

In 1995, the Ministry plans to introduce a revised budgeting and reporting system together with a non-profit housing budget review computer system. These changes should help staff eliminate the remaining backlog and improve the effectiveness of future reviews. However, until this system is fully implemented, the Ministry will continue to have difficulty ensuring fairness, consistency and cost effectiveness when reviewing and approving group budgets as well as making timely settlements and subsidy adjustments based on the audited financial statements.

#### **Recommendation:**

##### **The Ministry should:**

- review budgets upon their receipt and make clear to groups that constraints faced by the Ministry may alter the approved budget; and

- complete audited financial statement reviews and analysis to ensure that settlements and subsidy adjustments are finalized quickly and that draft guidelines for manageable operating costs can be updated to reflect more reliable information on actual costs.

#### **Ministry Response:**

*The Ministry has made the approval of annual audited financial statements and annual operating budgets a high priority. Resources have been redirected towards this objective and a strategy is in place to clear the pre-1994 backlog by August 1995.*

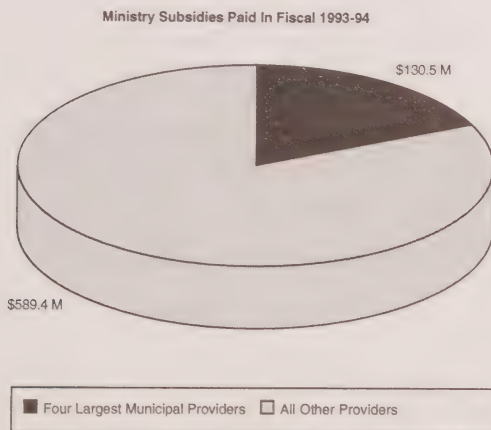
*The comment on the delays caused by the Expenditure Control Plan constraint instructions is correct but beyond the control of the Ministry. To update, it should not be the cause of further delays for the 1995/96 fiscal year as the Ministry was able to issue the co-operative newsletter in December 1994 and the Private Non-Profit/Municipal Non-Profit newsletter in April 1995.*

*The Ministry is in the process of reviewing the methodology for determining manageable cost ranges with the support associations with a view to having new ones out by mid-summer. In addition to manageable cost ranges which are used to identify costs that appear atypical and require further analysis, the Ministry will also develop budget preparation guidelines to assist groups in setting their budgets.*

### **MANAGEABLE COSTS OF MUNICIPAL PROVIDERS**

Using the median manageable cost of all providers, the Ministry has determined that four large municipal housing providers (CityHome, Peel Non-Profit Housing Corporation, City Living-Ottawa and Metro Toronto Housing Company Limited) had much higher manageable costs than the other municipal and private non-profits.

Subsidies paid to these large municipal providers are substantial as illustrated by the following chart:



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Our analysis of the manageable costs of these providers revealed that:

- the median manageable cost of all non-profit projects excluding the largest four municipal providers and co-operatives was \$1,756 per unit, whereas for the four municipal providers, it was \$2,995 per unit, fully 70% higher; and
- using other municipal and private non-profit projects as a benchmark, we determined that if manageable costs were contained to the median established for that particular group, the Ministry could realize savings of approximately \$11 million per year from these four municipal providers.

Additionally, our visit to one large municipal provider revealed relatively high administrative costs. We noted three projects where administrative costs would be considered high regardless of property size (\$484,000, \$485,000 and \$476,000, or about \$2,000 per unit). Standards have not been set for administrative costs on a project basis.

These providers maintain that their costs are understandably higher because of public sector staffing costs and the level of service provided. However, a more transparent accounting for and disclosure of project costs incurred by these providers would help determine the nature of services provided and costs incurred and explain whether:

- there are expenditures which are not eligible for subsidy;
- categories of expenditure on a per unit basis are excessive compared to other non-profit housing providers; and
- services provided duplicated those provided by others.

#### **Recommendation:**

**The Ministry should review manageable costs of the four large municipal non-profit housing providers to determine why they are so much higher than other providers as well as ways to reduce them.**

#### **Ministry Response:**

*The Ministry is reviewing the costs for the four large municipal non-profit providers. A study is to be jointly undertaken by the providers and the Ministry. The purpose of the study is to produce comparable financial information on the services and operating expenses for these providers. This would be achieved by obtaining knowledge and understanding of the business practices and financial accounting and reporting practices of these providers. The information gathered in this study will be used to:*

- *develop a framework for consistent reporting by large providers;*
- *establish benchmarks that can be used for their fair assessment; and*
- *determine best practices to ensure that value for money objectives are achieved.*

## COMPLIANCE REVIEWS

Ministry policy requires that regional staff conduct on-site reviews of sponsor groups to determine their compliance with program guidelines. All compliance reviews are initiated by Ministry housing administrators. Finance and technical services staff may participate in these reviews to assess financial controls and preventative maintenance efforts.

Our primary concerns with the review process are that:

- the Ministry has not yet established formalized risk-based criteria for choosing projects for review; and
- the Ministry does not conduct timely follow-up of recommendations on projects made to sponsor groups' governing boards.

Also, in the three regions we visited, which accounted for over 60% of the projects in the province, the nature and frequency of compliance reviews varied significantly. The following chart illustrates the wide variance in compliance review activity.

Compliance Reviews in Regions Visited

Region	Number of Operating Projects Administered 12/31/94	Number of Compliance Reviews Done Annually
Central/Metro	807	12-14
Northern	122	3-4
Southwestern	212	30

Central Region conducts relatively few on-site visits of the projects it administers. At present review levels, as many as half of Central Region projects may never receive on-site reviews during the 35-year period of their operating agreements. Northern Region also did few reviews but those they did were quite comprehensive. Based on experience in the Southwestern Region, it would not be unreasonable to expect each housing administrator or review team to complete at least one compliance review per month. This would reduce the review cycle to five to seven years in each region.

Compliance reviews act as a strong deterrent to non-compliance, questionable spending and potential conflicts of interest. For example, our brief site visits revealed that:

- at one project site a development consultant company stayed on as the property manager without a competitive selection process or the required Ministry approval of its contract. The Ministry was not aware of the company's relatively generous contractual arrangements which included over \$200,000 per year for maintenance and administrative salaries and benefits, or almost \$1,500 per unit. A new company selected through a tendering process has since provided satisfactory service for less money; and
- at a different site, another property manager, also formerly the development consultant, whose contract did not have the required Ministry approval, included various

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benefits in his contract, one of which was an annual bonus payment without specific performance requirements attached to the bonus. The property manager, who had his own firm, also sold computer supplies to the non-profit corporation he was managing and hired his son without a competitive selection process.

The Audit Services Branch of the Ministry has also reported similar instances in their reports involving property managers under contract with housing providers.

New annual reporting requirements issued in February 1995 specify that group governing boards must sign a statement that they have complied with a number of important program requirements. Sponsor groups' external auditors are required to report whether they have any reason to believe a board's statements to be false. However, the auditors are not required to perform any specific procedures to determine compliance with program guidelines.

Therefore, it is important that the Ministry establish an effective ongoing system of monitoring to ensure that groups comply with key terms of the operating agreement, that program objectives are being met and that the substantial investment in buildings and equipment is safeguarded through proper maintenance.

#### **Recommendation:**

**To provide adequate assurance that groups comply with program requirements and that expenditures are appropriate, we recommend that the Ministry:**

- establish risk-based criteria for choosing projects for review. Such criteria should include high risk indicators such as inexperienced boards, high vacancy-rate losses, concerns reported by auditors and significant expenditure variances;
- increase the number of compliance reviews to ensure adequate coverage of sponsor groups and projects on a cyclical basis; and
- establish a system of timely follow-up for recommendations made to governing boards on projects to ensure prompt corrective actions are taken where needed.

#### **Ministry Response:**

*In the past, compliance reviews of non-profit housing projects focused on assessing the degree of compliance with the operating agreement and Ministry guidelines. This type of review is being replaced with operational reviews which will not only assess compliance but will also examine the organization's business practices.*

*Some key features of operational reviews will be:*

- *Prioritized Reviews: The procedures will be based on a series of indicators such as high vacancy loss, high board turnover and exceptional variances in expenditures that will identify difficulties and allow Ministry staff to focus attention immediately on those projects that require Ministry intervention;*
- *Risk-Based Reviews: Risk analysis will be ongoing throughout the operational review; if areas of potential risk are encountered at any point, the review will become more in depth;*
- *Portfolio Reviews: Operational reviews will be conducted on a portfolio level rather than a project level which should result in a more system-oriented review*

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*that encourages the development of best business practices while increasing the number of projects being reviewed on an annual basis;*

- *Emphasis on the Role of the Board: Emphasis will be placed on the governance role of the board; training and orientation of board members, development of policies and procedures by the board and responsibilities of board members will be reviewed; and*
- *Reporting: The procedures will require all reviews to be followed up with a written report to the board for their response and subsequent Ministry follow-up.*

*The procedures for conducting operational reviews are currently under development with completion targeted for summer 1995. These procedures will assist in standardizing and streamlining the review process to make best use of resources available to conduct reviews. Operational reviews will be a priority for workload planning.*

3.13

## BOARD GOVERNANCE

Once a project reaches the operational stage, the governing board, made up of community members and tenants, becomes primarily responsible for the management of the project. It is often assisted by a development consultant during the early stages and a property management team on an ongoing basis.

Board capabilities are now assessed as part of the project approval process for the jobsOntario Homes program. However, no formal periodic assessment of board performance is done as part of compliance reviews once the project begins operating.

During our site visits in the three regions, we met with many representatives of governing boards to ask them whether:

- board members collectively possessed the skills, experience and commitment to manage the affairs of the project;
- board members' roles and responsibilities were made clear by way of mission statements, board policy manuals or bylaws;
- new board members received the necessary training and orientation; and
- the board met regularly and received adequate information to make decisions on key matters.

Based on these interviews and on documents we obtained, we concluded that about half of boards we met with appeared to have the above attributes. Some had developed or obtained comprehensive manuals and orientation materials to guide their board members and regularly sought training opportunities from supporting associations. However, several boards lacked one or more of these attributes.

For example, one sponsor group had to replace its board members after only two years of operations. The group had suffered a \$375,000 vacancy loss during the initial period, primarily due to market rent units not being rented. The board lacked the necessary skills and experience to act on the problem, causing serious financial difficulty.

Another project had been experiencing financial and managerial difficulties for some time. The Ministry had also identified several record-keeping and non-compliance problems to

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the group in February 1994 and had sent a group staff member for training. However, during our visit to this project in January 1995, it was clear that severe problems persisted. Only two of seven board members remained, records were still in disarray and audited financial statements for the year ended March 31, 1994 had still not been received. An outside property manager had only recently been hired. Board members we interviewed were frustrated and uncertain about the future viability of the project.

In a project referred to previously, the board treasurer openly admitted to us that because of the board's inexperience in property management, it was at the mercy of the development consultant managing the property. It was two years after operation commenced before the board finally realized that the consultant was not delivering as promised and terminated the contract which was worth over \$200,000 per year.

Internal audits of projects have also found similar examples, especially where the roles and responsibilities of the management company and those of the board of directors have not been clearly defined.

Given that the strength of governing boards is critical to the ongoing success of non-profit housing projects, the Ministry needs to place greater emphasis on supporting, monitoring and improving governing board effectiveness.

#### **Recommendation:**

**The Ministry should assess board performance and practices during compliance reviews and ensure boards receive and respond to the results of those reviews.**

#### **Ministry Response:**

*As noted above, operational reviews will place greater emphasis on the governance role of the board. In addition, the Ministry is developing an Administration Guide for non-profit housing providers which will address such topics as: definition and indicators of good governance and good management; incorporation; responsibilities of directors; organizational structure; the board as employer; tendering; and conflict of interest.*

## **PROBLEM PROJECTS**

In a few cases, our project reviews revealed serious problems which the Ministry was aware of but had not addressed in a timely or effective manner. These situations typically involved a failure to comply with important program requirements and/or questionable behaviour by the group. Left unresolved, such projects severely damage program credibility and result in inappropriate use of government funds. Two examples were of particular concern. In one case, lack of a signed operating agreement hampered the Ministry's ability to take definitive action. Further, neither compliance reviews nor internal audits had been conducted in either case.

- The president of one group had obtained a municipal tax exemption for the housing portion of his project but continued to budget for taxes until 1993 when the exemption was discovered by the Ministry. Total taxes claimed for subsidy amounted to \$340,000. The group also refused to remit a provincial sales tax rebate of \$278,000 it had received

in respect of capital expenditures, despite written policies covering such rebates. While much correspondence has taken place with management and the governing board, restitution has only recently begun. Audited financial statements for the year ended March 31, 1993 had still not been provided by the group as of April 1995.

- In another case, the Ministry has never had a true and accurate financial picture of the project's financial affairs. Audited financial statements for the years 1990, 1991 and 1992 were not provided until 1993. The group's external auditors refused to express an opinion on the group's financial statements for all three years. The external auditor also reported difficulty in locating records along with serious deficiencies in the group's system of internal controls. The auditors further identified questionable payments totalling \$170,000 to an ethnic centre and another \$196,000 of unsupported payments. These matters remain unresolved. It was not until late 1993 that the Ministry took definitive action by:
  - hiring a property management company to work with non-profit staff at the project;
  - insisting on a major restructuring of the governing board, especially changing the chairperson who the Ministry felt was a major contributor to problems cited by the auditors; and
  - having the new board meet with the tenants association to improve overall relations.

Our own visit to this project revealed an additional \$5,000 paid to the church of which the former chairman is pastor.

The Ministry has recently established an Issues Resolution Committee whose mandate includes establishing procedures for dealing with problem projects. We understand that these procedures will be in place by July 31, 1995, with earlier implementation of procedures to rectify problems already identified. We will assess the effectiveness of these procedures during follow-up audit work at an appropriate time after their implementation.

#### **Recommendation:**

**To ensure problem projects are dealt with swiftly and effectively, the Ministry should implement procedures for addressing such projects in a consistent, focused and timely manner appropriate to the severity of the circumstances as soon as possible.**

#### **Ministry Response:**

*With reference to the project which did not remit municipal and sales tax rebates, the Ministry is well aware of the outstanding issues and has actively been working with the Board of Directors of this project. Financial statement reviews resulted in a recovery of some of the funds. Subsequently, the Ministry suspended the project's subsidy in order to recover the remaining funds. The Ministry paid the mortgage directly to prevent a default. The region will be meeting with the group to again stress the importance of submitting the audited financial statements for the period 1992/93 and 1993/94 which are expected to alter the amount repayable to the Ministry.*

*With regard to the reference to the project which did not submit financial statements, settlements on statements from 1991-93 have commenced. Unsupported payments will be recovered.*

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*The regional office has been dealing with the non-compliance issues of this group since 1991. Although a formal compliance review was not conducted, the region focused its efforts on the areas where non-compliance presented the most severe problems. Numerous meetings and correspondence with the Board did not result in outstanding documentation being received. The region recommended that subsidies be withdrawn and default procedures be commenced. Following an appeal, the non-profit housing sponsor was given an additional opportunity to comply, and when it failed to comply, the procedures outlined in the audit report were implemented.*

*To update, the services of the property management company have recently been extended for another year. Substantial improvement in the management of the project is apparent. The property management company submitted an appropriate and detailed budget for the 1994/95 fiscal year. Their second year will include an increased effort in the areas of board and staff training.*

*Recently, a monthly reporting and monitoring approach for projects in difficulty was implemented in regional offices. This report requires that all projects in difficulty be tracked by regional offices. Each project must have an identified action plan for resolving the difficulty. Projects with more severe and significant difficulties are also reported to the Assistant Deputy Minister with this report. As part of the reporting process, consistency in the identification and management of projects in difficulty has been implemented.*

*Finalizing procedures for dealing with problem projects is a high priority. These procedures are for the use of regional office staff and are expected to be completed by early summer 1995. These procedures will ensure that the degree of Ministry intervention in projects with problems is proportional to the severity of the difficulty.*

## PERFORMANCE MEASUREMENT AND REPORTING

### INFORMATION SYSTEMS DEVELOPMENT

Several recommendations of the Standing Committee on Public Accounts dealt with the Ministry's need for timely and reliable information to effectively administer the programs and to publicly report whether non-profit housing projects are being developed and operated in a cost-effective manner. Specifically, the Committee was concerned about the Ministry's ability to:

- track market conditions for land and construction costs to ensure project capital costs were in line with market conditions;
- capture statistical data such as actual capital and operating costs for the program as a whole and for individual projects to assist in program management and policy development; and
- determine whether tenant placement policies are being followed to ensure that program objectives are achieved in a consistent, equitable and efficient manner.

While the Ministry has made significant progress in developing the systems needed to provide such information, progress has been much slower than anticipated in its work plan. Regions had only begun to implement the systems developed in late 1994 so that, in

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many cases, desired information is still not readily available to assess and report on the cost effectiveness of the program.

Our review of system development efforts to date suggests that much of the needed information will be available once all regions have implemented the systems and data entry has been verified. Our more specific concerns with available performance information are discussed below.

## **TRACKING THE IMPACT OF MARKET RENT UNIT VACANCIES**

### **VACANCIES IN EXISTING PROJECTS**

With the exception of certain projects intended to serve tenants with special needs, sponsor groups are required to maintain a mix of rent-geared-to-income and market rent tenants in projects as a means of achieving the programs' economic and social integration policy objectives. A target for the proportion of each type of tenant to be housed is established at the time the project is approved.

In 1992 we reported that a significant portion of market rent units were vacant and that the proportion of units occupied by rent-geared-to-income tenants averaged about 75%. We were concerned about the impact of vacancies and decreasing numbers of market rent tenants on policy objectives and future subsidies.

To study the extent of the problem, the Ministry surveyed projects and obtained occupancy data as of August 1992 for some 13,000 units, about 3,100 of which were targeted for market rent tenants. They found that 8% of those market rent units were vacant and that the majority of these had been vacant for over 60 days and some for as many as 19 months. This excluded normal delays in renting units during the first few months of operation. Vacancies were highest in the Southern (22%) and Central (11%) Regions of the province. The Ministry also found a trend toward lower targets for the proportion of market rent tenants approved for projects by the regional offices.

The Ministry's analysis of the problem indicated that high vacancies were caused by several factors including: declining interest rates; increased unemployment; more intense competition from private landlords; public perception that market rents in non-profit projects should be lower than private sector rents; and the location of some projects.

In June 1993 the Ministry's analysis team made several recommendations to address the problem of market rent unit vacancies including: better marketing training for groups; rent reductions, incentives or freezes; and temporary conversion of market rent units to rent-geared-to-income units. Also, in October 1993 a directive was issued to regions requiring them to collect quarterly occupancy data from groups to monitor the extent of the problem and the need for intervention on an ongoing basis.

Despite this directive, the Ministry still does not have a reliable ongoing method for tracking occupancy data for projects. Groups are required to file an annual information return which should include this data but such reporting to the Ministry has so far been sporadic and inconsistent. The system to be used to capture and analyze such data is only now being implemented.

Our own sample of projects revealed that market rent unit vacancies persist despite the actions taken. Specifically, almost half the projects in our sample where occupancy data was available or obtained had significant market rent unit vacancies, averaging 23% of

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targeted market rent units. Some of the projects had also been given temporary approval to increase their proportion of rent-geared-to-income tenants; four had completely eliminated their market rent units.

The Ministry needs more consistent and timely reporting of occupancy data to assess the impact of actions taken to reduce market rent unit vacancies as well as to reliably forecast the increase in future subsidies caused by market rent unit vacancies and conversions.

#### **Recommendation:**

To monitor the cause and extent of market rent unit vacancies and to minimize their impact on future subsidies, the achievement of the programs' economic and social objectives and program credibility, the Ministry should ensure that its plans to collect and analyze occupancy data are implemented as soon as possible and that definitive actions to minimize vacancies are based on that analysis.

#### **Ministry Response:**

*Although some regional offices do track market unit vacancies monthly, there has not been a consistent approach. The approach of reporting monthly became inconsistent with the overall accountability framework of the Ministry as outlined in the operating agreement. The new operating agreements include a devolution of responsibility from the Ministry to the non-profit housing sponsor.*

*Through the change in the subsidy structure, the non-profit housing sponsor will be responsible for minimizing market unit vacancies. In the year end return package, the group will be required to indicate the vacancy loss on a month to month basis. There is an incentive in the subsidy structure to minimize that amount. The incentive works differently for each of the sponsors.*

#### **For Co-operatives:**

*Annual operating subsidies provided to co-operative non-profit housing sponsors are determined on the basis of a base year operating budget which outlines the expenditures for a "typical" year. Co-operatives are expected to operate within these expenditures (there are allowances for adjustments due to changes in the number of rent-geared-to-income units and rent-geared-to-income rents). The base year operating budget includes an allowance for vacancy loss. As with other expenditures, if vacancy loss exceeds the amount budgeted in the base year budget, the co-op will be required to cover the costs.*

#### **New Subsidy System for Non-Profits:**

*Annual operating subsidies provided to private and municipal non-profit housing sponsors are determined on the basis of unit rent factors. Unit rent factors are derived from typical market rents for different unit types (1,2,3 bedroom) in each of the approximately 150 districts across the province. These "notional" rents are used to calculate the rent and operating subsidies in that the rent subsidy pays the difference between the unit rent factor for units occupied by rent-geared-to-income tenants and the actual rents collected from those tenants. The operating subsidy*

pays the shortfall between the costs of operating the portfolio and the total of the unit rent factors for all units.

*The market rents are currently reduced by 5% to establish unit rent factors. While this reduction is designed to account for market rent variances within market areas and provide incentive for the non-profits to maximize market rents, it also provides some allowance for vacancy losses. Non-profits would have to cover any vacancy loss in excess of the amount accounted for in unit rent factors. (It should be noted that the vacancy loss of market units is covered by the Ministry in 1995 as part of the transition to the new agreement structure.)*

*The access provision requires that most groups maintain a minimum market component of 25%. This will ensure that there are not permanent changes from market rent to rent-geared-to-income in projects as the strategy for dealing with market rent vacancies. Temporary changes from market rent to rent-geared-to-income may be used to address short-term vacancy issues.*

## MEETING FUTURE DEMAND

One approach to reducing or avoiding market rent unit vacancies in the future would be to more thoroughly examine housing assistance alternatives in communities before approving additional housing supply. According to the Canada Mortgage Housing Corporation (CMHC), rent supplement and renovation programs can be cost-effective alternatives to housing supply programs in areas of high vacancy rates.

Although vacancy rates and projected market demand are considered in the provincial allocation model and individual project selection, they are not a significant factor in the decision to approve non-profit housing projects. However, apartment vacancy rates have risen in several communities which will affect the ability of non-profit housing projects to rent market units in non-profit housing projects in those communities.

According to CMHC's 1993 *National Social Housing Annual Review*, Ontario has committed a smaller proportion of its federal social housing support to rent supplement programs than the national average, as shown by the following chart.

Proportion of Federal Support Committed to Rent Supplement Programs

	1991	1992	1993	1986-93
Canada	16%	25%	14%	19%
Ontario	10%	18%	3%	11%

In fact, for the period 1986-1993, Ontario committed a smaller proportion of federal support to rent supplement programs than any other province. Ontario's commitment of federal support to renovation projects has also been less than the national average from 1986 to 1993 (50% of committed units versus 61%) but has risen in recent years.

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### **Recommendation:**

To reduce the likelihood of vacancies in market rent units in future projects, housing assistance should be provided to communities based on an in-depth study of local needs and of the relative cost effectiveness and availability of assistance alternatives. The assistance provided should address the needs in the most cost-effective way.

### **Ministry Response:**

*The Ministry's allocation system introduced as part of jobsOntario Homes improved the process for distributing non-profit units to areas where the demand for housing is the greatest. This model will be reviewed and improvements implemented as part of any future program. In addition, the Ministry supports a review of alternative approaches to addressing local needs for housing assistance as part of any future program. This review will include the relative cost effectiveness of these assistance alternatives.*

## **FORECASTING AND REPORTING SUBSIDY COSTS**

The calculation of subsidies is complicated, and co-operative project subsidies are calculated differently from private and municipal non-profit project subsidies. In general though, the subsidy is made up of two components: a rent subsidy equivalent to the difference between market rents and geared-to-income rents for all approved rent-geared-to-income units; and an operating subsidy which amounts to the difference between total operating costs, including mortgage payments and taxes, and the total rental income if all units were rented at market rents.

Under the terms of operating agreements with co-operative corporations, they are required to pay back the cumulative operating subsidy, without interest, if and when revenues exceed costs. The geared-to-income subsidy remains for the 35-year life of the agreement.

Consequently, it is important to track rent and operating subsidies separately in order to clearly report the nature of program costs and to forecast when operating subsidies might begin to be repaid. Reliable information of this nature is not currently available.

Sound forecasts of future subsidies and repayments as well as meaningful analysis of policy alternatives and cost-saving proposals depend on making reasonable assumptions about many variables including geared-to-income rent levels, market rent levels, tenant mix, interest, tax and inflation rates, and the timing of project completions. However, forecasts have been based only on existing costs adjusted for any cost-saving initiatives introduced, and the planned project completion dates. Existing systems have not permitted more efficient and effective analysis, forecasting and reporting of subsidy costs.

We understand that the Ministry has recently taken some steps to refine its process for estimating subsidies, which has resulted in a reduction of \$68 million to the 1995/96 subsidy forecast.

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**Recommendation:**

To foster improved public accountability, to better explain the costs of non-profit housing programs and to facilitate analysis of policy and cost reduction strategies, the Ministry should develop the capacity to forecast and report both operating and rent subsidies and the impact of changes in key variables affecting subsidy costs.

**Ministry Response:**

*The Ministry supports the recommendation. The Ministry will develop the capacity to track operating and rent subsidies separately. Improvements to our capacity to track the impact of key variables will also be implemented.*

## 3.13

### **ANALYZING INFLUENCES ON HOUSING DEMAND**

Many factors affect the demand for housing. Changes in economic conditions, demographics, family structures and social policies all have an effect. In Ontario, advocacy groups and studies point to persistent waiting lists for subsidized housing despite rapid growth in the number of units made available since 1988. There are few if any vacancies in rent-geared-to-income units.

It is important to study the reasons why growth in demand keeps pace with growth in supply if growth in future housing subsidies is to be controlled. One factor to study is the impact on the demand for housing of other social policies both within and outside Ontario.

For example, Ontario is known to have the highest social assistance levels in the country. As well, until recently, Ontario was the only province operating unilateral non-profit housing programs. Interjurisdictional differences in policies may help fuel demand.

Demographic data shows that net migration to Ontario has accounted for over 50% of Ontario's population growth since 1987. Ontario's share of immigrants to Canada has risen to 53% in 1993 from 43% in 1981. It peaked at 56% in 1987. The greater Toronto area receives over 70% of immigrants to Ontario or about 40% nationally. Immigration levels to Ontario continued to increase even during the recession of the early 1990s. The extent to which net migration is influenced by differences in social policies and available housing is, however, not presently known.

**Recommendation:**

The Ministry should study the impact of relevant social programs within and outside Ontario on the demand for affordable housing as part of its ongoing assessment of housing policy and future needs.

**Ministry Response:**

*Some work on assessment of housing demand is already under way as part of our role on the Federal/Provincial/Territorial Committee dealing with housing demand. This committee reviews the share of need across the provinces and territories, the level of core need and so on. The interministerial committee examining the impact of social assistance reform did review the interaction between changes in social assistance and housing demand.*

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*However, there is the need for more work on this issue. The ministry's policy branch will be asked to specifically study the impact of relevant programs on housing demand.*

## **ANALYZING CAPITAL COSTS**

An area of much concern during the 1993 Public Accounts Committee hearings was the Ministry's inability to track and report the cost of units developed. This ability requires reliable data on actual capital costs per unit relative to expected norms and standards or other fair comparisons. As stated earlier, design and costing medians have been developed to help assess costs during the approval stage of new projects. However, the Ministry has not yet reported on the relative cost of units built and committed in recent years.

In the absence of meaningful market comparisons or benchmarks, one fair comparison is the cost of provincial units relative to federal/provincial units. According to available data on the \$4.5 billion of committed capital costs of projects completed over the last three calendar years, provincial projects have cost on average 7% more per unit than federal/provincial projects (\$116,500 and \$108,800 respectively). The largest difference was for units added in 1993 (13%) while costs were much closer for units added in 1994 (1%).

According to Ministry figures, the committed cost of all post-1985 provincial non-profit housing units has averaged 20% more than federal/provincial units (\$110,000 versus \$91,000).

To determine why costs would differ so significantly, we compared the relative size and geographic distribution of units committed under each. The following charts show the relative cost and regional distribution of units committed over the last five years as well as the relative proportion of unit types for all units completed to December 31, 1994.

Region	Range in Average Committed Capital Costs Per Unit 1990-94 (\$)	Regional Distribution of Completed Units		
		Federal/ Provincial %	Provincial %	Overall %
Metro	116,700-139,900	22	30	27
Central	119,500-126,200	23	27	25
Southern	97,300-109,100	17	17	17
Northern	95,200-105,000	6	5	5
Northwestern	99,600-104,200	4	2	3
Eastern	87,800-96,100	15	11	13
Southwestern	71,400-85,700	13	8	10
		100	100	100

Source: Non-Profit Housing Branch, Ministry of Municipal Affairs and Housing

#### Housing Portfolio Mix at 12/31/94

	<u>Federal/ Provincial</u> %	<u>Provincial</u> %	<u>Overall</u> %
One bedroom or smaller (senior and singles)	38	46	42
Two bedroom or larger (families)	<u>62</u>	<u>54</u>	<u>58</u>
	<u>100</u>	<u>100</u>	<u>100</u>

Source: Non-Profit Housing Branch, Ministry of Municipal Affairs and Housing

While the provincial portfolio is more heavily concentrated in the more expensive Metro and Central Regions than the federal/provincial portfolio (57% versus 45% respectively), the federal/provincial portfolio is more heavily weighted toward family accommodation which has higher average costs per unit (62% versus 54% respectively). Therefore, other factors have contributed to the higher cost of provincial units. These include the rapid pace of delivery of the HomesNow program, the Land Loan Guarantee program which often resulted in substantial carrying charges on land purchases, and the need to commit projects under the federal-provincial program by the end of each calendar year or risk losing the federal units available to Ontario, thereby causing more problem or complex projects to be approved under the more flexible provincial programs.

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**Recommendation:**

To improve accountability and program planning, the Ministry should analyze and report on the costs, over time, of non-profit housing projects relative to expected norms, including market information where available.

**Ministry Response:**

*A computer software application was developed during 1994 and delivered to the regional offices in the Spring of 1995. The Capital Information System (CIS) permits efficient analysis of non-profit housing currently being developed by sponsor groups. CIS also provides the Ministry with a database platform where key information about individual project capital costs can be recorded. Key data includes: a required summary of the project site including soil and topography comments; building attributes; the project's parking spaces and types; and the project's non-shelter uses by type and size. Data definitions and computer menu-driven data choices have been incorporated into CIS to provide consistent project profiles.*

*Property information (the land component) is maintained on a separate CIS database and will permit comparisons of non-profit land purchases to market surveys. CIS also has data links with other existing non-profit database systems. For example, when sponsor groups provide the Ministry with operating budgets for new projects, useful cost analysis of various design and construction features can be performed.*

*When fully implemented, the CIS will significantly improve the Ministry's ability to analyze and report project costs.*

*To improve monitoring and reporting of operating costs, this recommendation will be incorporated into the Ministry's forecasting improvement project. The purpose of this project is threefold:*

- improvement of forecasting capability of the Ministry;*
- integration of initiatives with financial impacts; and*
- development of databases required for forecasting and analysis.*

*Manageable cost ranges are only the first of the costing guidelines to be developed for the ongoing administration of the program. Other guidelines will be developed and reported on in the future. These could include reporting on costs relative to norms including market information where available. The Ministry is beginning work on budget preparation guidelines which it can develop and report on, to give groups as much information as possible about how they are performing relative to other non-profits (and market companies where the information is available).*

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## TENANT PLACEMENT

In 1992 we reported that multiple waiting lists and inconsistent placement criteria and referral practices made it unlikely that those in need of affordable housing would be treated consistently, equitably and efficiently. In its 1993 report, the Public Accounts Committee recommended that the Ministry establish a formal reporting mechanism for tenant placement to ensure that program objectives are achieved in a consistent, equitable and efficient manner. Further, regional offices were to submit progress reports on tenant placement on the basis of formal tenant placement criteria.

The Ministry is not yet in a position to report on the extent of group compliance with tenant placement criteria and, therefore, cannot provide assurance on the achievement of tenant access objectives. The co-operative operating agreement and the draft private and municipal non-profit operating agreements make clear that groups must comply with Ministry requirements for eligibility criteria, income verification and chronological waiting list maintenance and placement. Sponsor groups will be required to sign an annual statement assuring the Ministry that they are aware of and have complied with Ministry requirements for tenant placement and rent determination. However, until a regular program of compliance reviews is in place in each region, the Ministry will not have reliable information about the extent of compliance with these important program requirements.

There are currently eight communities conducting pilot projects to test how co-ordinated access systems can best be developed. Once implemented, applicants will be able to go to a location to obtain information about the social housing in a geographic area, complete a single application form and have their applications placed on a waiting list(s) where they wish to live.

Although originally planned for implementation by the end of 1993, we understand the Ministry is planning to begin implementing a province-wide system for accessing subsidized housing in 1996. The system is intended to ensure that those who have waited longest will be offered available housing first, although a small percentage of units will go to persons who are abused, emergency cases and those who would be disadvantaged by a first-come, first-served system such as youth and newcomers and the homeless.

### **Recommendation:**

**The Ministry should ensure that compliance review results regarding tenant access and rents are summarized and reported by regions in order to obtain periodic and reliable information on the achievement of tenant access objectives.**

### **Ministry Response:**

*Compliance reviews of non-profit housing projects are being replaced with operational reviews which will not only assess compliance but will also examine the organization's business practices. The procedures for conducting operational reviews are currently under development with completion targeted for summer 1995. Achievement of access objectives will be evaluated as part of this review process.*

**MINISTRY OF MUNICIPAL AFFAIRS AND HOUSING**  
**NON-PROFIT HOUSING PROGRAM**  
**STATUS OF IMPLEMENTATION OF PUBLIC ACCOUNTS COMMITTEE RECOMMENDATIONS ARISING**  
**FROM 1992 OPA REPORT**

PAC Recommendation	Date Reported by Ministry to PAC for Implementation of Recommendation	Implemented as of Mar./95			Status of Implementation Based on OPA Assessment	Not Implemented as at Mar./95 Revised Target Date
		Yes	No	Partial		
<b>Needs and Demand Study/Fair Share Model</b>  Recommendation #1: The Ministry of Housing should review the provincial non-profit housing allocation system at the end of the first year of operation to ensure that the approval system is adequately staffed, the local market conditions are addressed and that the residential units are allocated in areas of greatest demand under the terms of the program.	None given.	✓			New allocation model in place March, 1994.	N/A
<b>Comparative Model of Non-Profit Program</b>  Recommendation #2: The Ministry of Housing should develop a comparative model of the non-profit program to assist in program management and future audits. The methodology should permit the development phase on a consistent basis and to monitor those in effectiveness on an ongoing basis. Projected development costs and final capital costs or "actuals" should be maintained on a project basis with reference to the three main cost components of land, construction and soft costs which would include insurance for example.	Budget review system for operations to be implemented by December, 1993.  Capital cost evaluation system to be implemented by December, 1993.			✓  ✓	Pilot projects being carried out soon.  Design and costing medians developed.  Final capital costs are still slow to obtain for comparison.  Pilot expected to be implemented soon.  See also our further recommendations.	Not yet set        Not yet set
<b>Highest and Best Use Appraisal Value</b>  Recommendation #3: The Ministry of Housing should assess the "Highest and Best Use" appraisal methodology to determine whether this approach is achieving value for money in non-profit housing real estate transactions.	Implementation by December, 1993.	✓			Select Site manual containing new guidelines issued to all regions in January, 1994. Testing indicates guidelines followed for new projects.	N/A

## APPENDIX A

PAC Recommendation	Date Reported by Ministry to PAC for Implementation of Recommendation	Implemented as of Mar./95			Status of Implementation Based on OPA Assessment	Not Implemented as at Mar/95 Revised Target Date
		Yes	No	Partial		
<b>Competitive Procurement Practices</b> <b>Recommendation #4:</b> The Ministry of Housing should adopt a directive on competitive procurement practices to ensure that administrative procedures are followed to promote economy, efficiency, and effectiveness in the development of residential units in the non-profit housing program.	Implementation by December, 1993.	✓			Fee-for-service structure established for development consultants. Select Site manual published in January, 1994. Four other handbooks now completed.	N/A  N/A
<b>Conflict of Interest Provisions</b> <b>Recommendation #5:</b> The Ministry of Housing should review the application of the Conflict of Interest Directive at the end of the first year to assess compliance.	No date. One year from date of implementation given to PAC.			✓	A review of revisions to conflict of interest policy is underway to clarify the Ministry's position for groups.	New guideline will be effective September 1995
<b>Maximum Unit Price Not Adjusted When Costs Declined</b> <b>Recommendation #6:</b> The Ministry of Housing should develop an improved methodology to control capital costs which would include an assessment of the "maximum unit price" system. The new system should be capable of assessing market adjustments and establishing revised cost structures on a timely basis.	To be implemented by January, 1994.	✓			Design and costing medians implemented in June, 1994.	N/A
<b>Recommendation #7:</b> The Ministry of Housing should take steps to ensure that the maximum unit price system (MUP) or an alternative pricing method is understood in the development industry to be the maximum permitted price only and that negotiations should be pursued on this basis.	To be implemented by January, 1994.	✓			For new construction, the JobsOntario Homes proposal request and related guidelines make clear MUP no longer exists. A similar approach is to be followed for negotiations for design/build projects. Guidelines contained in Develop Project manual published in August, 1994.	N/A
<b>Competitive Tendering for Development Consultants</b> <b>Recommendation #8:</b> The Ministry of Housing should adopt a directive to ensure that all qualified development consultants have an opportunity to tender on non-profit housing projects in a competitive format.	Implementation by December, 1993.	✓			Ministry will not require competitive acquisition but rather has implemented a fee for service model effective October, 1994. Review of the fee structure is ongoing.	N/A

PAC Recommendation	Date Reported by Ministry to PAC for Implementation of Recommendation	Implemented as of Mar./95			Status of Implementation Based on OPA Assessment	Not Implemented as at Mar./95 Revised Target Date
		Yes	No	Partial		
<b>Operating Agreements Not Signed</b> <b>Recommendation #9:</b> The Ministry of Housing should expedite the execution of the outstanding operating agreements for non-profit housing projects. Furthermore, a Ministry Policy should be introduced to ensure that the standard conditions of operating agreements are provided to sponsoring groups at the outset of projects, and to require that operating agreements are executed for all future non-profit housing projects at the earliest practical opportunity, but in any event, prior to occupancy.	Co-op agreements to be signed by April, 1994. Private and municipal agreements to be signed within 14 months of finalizing co-op agreements, i.e. December, 1994.			✓	All co-op agreements are finalized. Draft private and municipal agreement finalized December, 1994. Agreements have been sent to groups for signature.	June/95
<b>Responsiveness of Capital Costs to Market Conditions</b> <b>Recommendation #10:</b> The Ministry of Housing should conduct periodic assessments of the proposed capital cost control system to ensure that procedures are responsive to market conditions and that potential savings are assessed and realized.	No implementation date given			✓	Information is being captured. Will be a continuous assessment process as new projects are added to database upon completion.	Ongoing
<b>Assessment of Variance in Operating Costs</b> <b>Recommendation #11:</b> The Ministry of Housing should assess projected operating costs for the non-profit program over the long term with the objective of identifying potential supplementary expenditure requirements. Also, variations in operating costs, such as unit expenditures by cost categories, among housing projects should be addressed through cost comparisons to established guidelines.	To be implemented by June, 1994			✓	Manageable cost guidelines study done. Some guidelines on budgeting expected July, 1995 but take effect in 1996. Some cost saving initiatives have also been introduced. See also our further recommendations	Jan./96
<b>Meeting Tenant Placement Targets</b> <b>Recommendation #12:</b> The Ministry should establish a formal reporting mechanism for tenant placement to ensure that program objectives are achieved in a consistent, equitable and efficient manner. Regional offices should submit progress reports on tenant placement on the basis of formal tenant placement criteria.	To be implemented by December, 1993		✓		The Ministry expects all providers to have new systems in place within two years.	Dec. 31/96
<b>Computerized Database for Development Costs</b> <b>Recommendation #13:</b> The Ministry of Housing should develop a computerized database to track market construction prices accepted by developers across the province. This cost index should be used in all negotiations with the development industry on non-profit housing projects.	To be implemented by December, 1993			✓	Design and costing medians computer system used beginning June, 1994 but availability of market data still a problem.	Not yet set

## APPENDIX A

PAC Recommendation	Date Reported by Ministry to PAC for Implementation of Recommendation	Implemented as of Mar./95			Status of Implementation Based on OPA Assessment	Not Implemented as at Mar/95 Revised Target Date
		Yes	No	Partial		
Central Management Information System Needed Recommendation #14: The Ministry of Housing should develop a central management information system for statistical data on the non-profit housing program to assist in program management and policy development. This system should provide access to program data and statistical information on individual projects.	To be implemented by December, 1993			✓	Further review/development required re: data entry processes, system enhancement, etc. See also our further recommendations.	Not yet set
Scope and Regularity of Internal Audit Practices Recommendation #15: The Ministry of Housing should assess the scope and regularity of its internal audit practices for all areas of the non-profit housing program to determine program compliance with the administrative policies and procedures.	No date given per first PAC response	✓			Risk assessments completed and reflected in ASB 94/95 audit plan dated April, 1994. Revised audit program implemented.	N/A

MINISTRY OF MUNICIPAL AFFAIRS AND HOUSING  
NON-PROFIT HOUSING PROGRAM  
STATUS OF RECOMMENDATIONS BY THE STANDING COMMITTEE ON PUBLIC ACCOUNTS  
CONCERNING HOUSELINK AND SUPPORTIVE HOUSING COALITION

RECOMMENDATION	STATUS OF IMPLEMENTATION
<p><b>Recommendation 1:</b> Ministries should ensure that the annual reconciliation and settlement process for funding to non-profit organizations is completed before the next budget is approved. To support these procedures, it may be necessary to provide interim reports to the ministries for timely review of financial performance.</p>	<p>The Ministry provides non-profit housing sponsors with subsidy on the basis of an approved budget. This budget must be provided at least three months prior to the start of their fiscal year. The subsidy is reconciled based on the audited financial statements which are to be received five months after the end of the fiscal year. Budget approval prior to the beginning of the fiscal year will require use of interim reports since the audited financial statements cannot reasonably be prepared prior to the end of the fiscal year.</p>
<p><b>Recommendation 2:</b> Ministries should ensure that all non-profit organizations that receive provincial funding have up-to-date policies outlining the ministries' expenditure approval requirements. These policies should include the requirement that any unauthorized expenditures be repaid.</p>	<p>The 1992 Provincial Auditor's report dealt with the issue of backlog of approvals. The Ministry has cleared the majority of the pre-1993 backlog and is working on the remaining backlog. The new subsidy system has been designed to ensure that approvals are streamlined.</p>
<p><b>Recommendation 3:</b> Ministries should review their policies concerning acceptable levels of professional fees payable by non-profit organizations, and the acceptance of donations from those professionals and other suppliers, to ensure that the highest ethical standards are maintained.</p>	<p>Budget packages, annual information return package, administration manuals, and newsletters are provided to non-profit housing sponsors. As part of jobsOntarioHomes program, several more manuals and guidebooks have been issued or are under development which outline Ministry policies and expenditure approval requirements. See our further recommendations in this regard.</p>
<p><b>Recommendation 4:</b> Ministries should strengthen their procedures in order to enable them to take remedial action on all questionable activities identified by an internal audit.</p>	<p>The Ministry has conducted this review. The Ministry has recently published the Handbooks on Development Consultants and Resource Groups which outlines the services which must be provided and the fees paid. This guide also outlines the Ministry's conflict of interest guidelines for development consultants / resource groups. The Ministry issued conflict of interest guidelines for professionals involved in the program in November 1992 and is in the process of updating these guidelines.</p>
<p><b>Recommendation 5:</b> Ministries should instruct funded organizations to forward copies of any written comments by external auditors on the system of internal controls or management practices, together with the organization's response thereto.</p>	<p>The Ministry has reviewed its current procedures for implementing audit recommendations and established a protocol for management response to recommendations from audits. See our further recommendations regarding problem projects.</p>
<p><b>Recommendation 6:</b> Ministries should ensure that all non-profit organizations that receive provincial funding have up-to-date policies outlining the ministries' expenditure approval requirements. These policies should include the requirement that any unauthorized expenditures be repaid.</p>	<p>The Ministry has been working with the Institute of Chartered Accountants of Ontario on a streamlined accountability framework for the non-profit housing program. This work has resulted in the issuance in February 1995 of a new annual information return package. The annual information return and audit reports will increase the Ministry's assurance concerning compliance of non-profit housing sponsors with their operating agreements and will provide more effective and efficient monitoring of non-profit financial and management practices. Groups are now required to forward copies of management letters issued by their external auditors.</p>

## APPENDIX B

RECOMMENDATION	STATUS OF IMPLEMENTATION
<p><b>Recommendation 6:</b> Ministries should develop standards, guidelines and best practices for the directors on the boards of non-profit organizations to ensure that they have the skills, experience and training required for, at a minimum, competent governance of public funds.</p>	<p>The design of <i>jobsOntarioHomes</i> has placed greater emphasis on the skills and qualifications of non-profit housing sponsors. To receive a Stage One commitment under the program, sponsoring groups are evaluated on the basis on their ability to develop and manage a non-profit project over the long-term. An interview of the Board is conducted. The continued ability of the boards to fulfil this requirement will also become part of the Ministry's ongoing evaluation. See our further recommendations regarding Board governance.</p>
<p><b>Recommendation 7:</b> The Ministry of Housing and the Ministry of Health should expedite the execution of outstanding operating agreements/memorandum of understanding for non-profit housing projects.</p>	<p>The Ministry has placed a great emphasis on the execution of outstanding agreements. The agreement for co-operatives was finalized and almost all agreements have been executed. The agreement for Private and Municipal Non-Profit groups is completed and will be fully executed by sponsors by the end of June 1995.</p>
<p><b>Recommendation 8:</b> Ministries monitoring efforts should ensure that non-profit compliance with ministries objectives, directives, policies, operating agreements/memorandum of understanding and budgets is detected early and that prompt corrective action is taken.</p>	<p>Through their review of budgets and financial information package, the Ministry can determine compliance with guidelines etc. Reviews of budgets and financial statements will be improved to ensure compliance with guidelines, directives and operating agreements. Part of this work has been addressed through our improvements to the annual information returns. See also our recommendations regarding compliance reviews.</p>
<p><b>Recommendation 9:</b> Ministries should develop equitable and effective sanctions for dealing with significant instances of non-compliance by funded organizations.</p>	<p>Ministry has the ability to withdraw subsidy if a non-profit housing sponsor is in a position of non-compliance. The new operating agreement contains specific remedies for non-compliance including the ability to appoint a receiver should it become necessary. See our recommendation regarding problem projects.</p>
<p><b>Recommendation 10:</b> The ministries involved in co-funding an agency should designate a lead ministry among themselves. This lead ministry should have overall responsibility for ongoing co-ordination and liaison between the agency and the ministries.</p>	<p>Ministries involved in co-funding an agency liaise on the initial development and the ongoing administration. At present, the ministries have not consistently appointed a "lead" ministry but this will be considered as a means to improve this liaison.</p>
<p><b>Recommendation 11:</b> Ministries should reassess their program mechanisms and the effectiveness of the organizations they have established as their service delivery agents to operate government funded non-profit housing. Such a reassessment should be conducted to improve controls over these organizations and to make service delivery more economical and effective.</p>	<p>The Consultation Counts document and the design of the <i>jobsOntarioHomes</i> program reviewed the roles and responsibilities of sponsors in the delivery of non-profit housing. The roles and responsibilities have been clarified through the development of the performance agreement and operating agreements. We have made further recommendations to help improve controls and to make service delivery more economical and effective.</p>

# Municipal Affairs

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There are 815 municipalities in Ontario which spend approximately \$20 billion annually on operations and capital. About 30% of that amount is funded by various provincial ministries. The relationship between municipalities and the Province is a complex one. More than 150 pieces of provincial legislation govern the actions of municipalities. A dozen ministries provide some \$6.5 billion in grants or loans for a variety of services, each with different conditions attached. Appendix A provides a summary of the more significant programs.

The Ministry of Municipal Affairs is responsible for administering the legislation that establishes and governs municipalities. A stated purpose of the Ministry is to provide leadership in the development of communities and municipalities to meet the needs of residents of Ontario. The Ministry plans for the future of communities by promoting strong, fair, effective and accessible local governance, by guiding development in accordance with provincial objectives and policies, and by ensuring that the Province and municipalities work together in the best interests of the people of Ontario.

Its role includes maintaining the legislation needed for municipalities to respond to local needs, monitoring the financial condition of municipalities, offering management and administrative support to municipalities, and providing financial assistance, mostly in the form of unconditional grants.

Other responsibilities relating to municipal affairs include providing funding and assistance for various community-based initiatives, regulating land use by municipalities, funding the Ontario Municipal Board, and administering the Canada Ontario Infrastructure Works program for municipalities in southern Ontario. (The Ministry of Northern Development and Mines administers this program in Northern Ontario.)

For the 1994/95 fiscal year, the Ministry of Municipal Affairs' total expenditures were \$919 million. Of this amount, \$666 million was paid to municipalities as unconditional grants under the *Ontario Unconditional Grants Act* and a further \$195 million was paid as conditional grants.

At the time of our audit, the Ministry of Municipal Affairs operated a head office in Toronto and five regional offices throughout the province and employed approximately 485 staff.

*Note:* Subsequent to the completion of our audit, the Ministry of Municipal Affairs and the Ministry of Housing were combined into a single ministry. References in this report to the Ministry of Municipal Affairs are to the Ministry as it existed at the time of our audit.

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## OBJECTIVES AND SCOPE

Our audit objectives were to assess whether satisfactory systems and procedures were in place for the Ministry to:

- promote strong, fair, effective and accessible governance in municipalities;
- monitor the financial conditions of municipalities and control payments to municipalities under the Ontario Unconditional Grants Act; and
- measure and report on the Ministry's effectiveness in achieving legislated and stated goals and objectives.

The audit was conducted at the Ministry of Municipal Affairs' head office and three of five regional offices. In addition, we reviewed numerous studies conducted over the last few years, mostly by joint provincial-municipal task forces and committees, which examined provincial-municipal relationships and funding, municipal boundaries and organization, and a variety of cost-effectiveness and accountability issues.

3.14

## OVERALL AUDIT OBSERVATIONS

Despite the recommendations of recent joint provincial-municipal committees and attempts to reach an agreement on redistributing services delivered by the Province and municipalities, the provincial-municipal relationship remains poorly defined, and several impediments to clearer accountability and cost-effective service delivery exist. Until a more effective relationship is negotiated and, where necessary, legislated, the Ministry will be unable to ensure that the Province and municipalities work together in the best interests of the people of Ontario and that any overlap and duplication of effort is eliminated.

Several studies conducted over the last few years have also pointed out many potential improvements to local accountability, services and cost effectiveness through restructuring of local municipalities. However, very few changes have occurred to achieve the identified benefits. Ontario lags behind several other jurisdictions in this regard.

The *Municipal Affairs Act* provides the Ministry with substantial powers to ensure the continued financial stability of municipalities. We concluded that procedures and systems used to monitor the financial condition of municipalities were not satisfactory.

We also found that the Ministry has not made satisfactory efforts to measure and report on its effectiveness in achieving its objectives.

While responsibility for addressing all of these problems does not rest solely with the Ministry, actions which the Ministry can and should take to improve this situation include:

- working with municipalities and other ministries to more effectively define the respective roles and responsibilities of the Province and municipalities and provide more flexibility and efficiency in service delivery through focusing more on results and less on how they are to be achieved. Recent land-use planning reform legislation is a positive step in this regard;

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- developing action plans to achieve the many financial, service and accountability benefits already identified by several studies of the impact of restructuring municipal services and organizations;
  - helping to strengthen municipal performance and accountability by encouraging more comprehensive performance reporting by municipalities of the quality and cost of services provided; and
  - improving measurement and external reporting of the Ministry's own effectiveness.

## DETAILED AUDIT OBSERVATIONS

### MINISTRY EFFORTS TO IMPROVE MUNICIPAL GOVERNANCE, ACCOUNTABILITY AND COST EFFECTIVENESS

#### PROVINCIAL-MUNICIPAL RELATIONSHIPS

The Ministry's stated objectives include strengthening provincial-municipal relationships by clarifying responsibilities and providing fair, effective and accessible local government through local government reform. Despite years of study and effort, negotiations with municipalities to reform the relationship have had limited success.

Municipalities are created under provincial legislation and derive their powers from their enabling statutes. The *Municipal Act* and other legislation specific to regional municipalities provide for the establishment and structure of municipalities and set out their basic powers to regulate activities, provide services and obtain funding as well as their reporting and audit requirements.

In April 1989, the Minister of Municipal Affairs established a provincial-municipal advisory committee to review fiscal relationships between the Province and its municipalities. In its January 1991 report, the committee concluded that there was a need to develop a new provincial-municipal relationship and made 39 recommendations aimed primarily at recognizing and clarifying the expanded role that municipalities had acquired through the gradual shifting of responsibilities from the Province, together with the financial implications of those shifts.

Recommendations focused on: establishing a clearer delineation of roles and responsibilities to foster accountability; fairer cost sharing of programs and revenues; greater municipal autonomy in decisions affecting the level and management of local services (such as protective services and local roads); revenue sources for municipalities free from intrusion by other levels of government; and property tax reform.

In mid-1991, a steering committee composed of six cabinet ministers and six municipal representatives appointed by the Association of Municipalities of Ontario was established to move forward with reform of the provincial-municipal relationship. The goal of this reform, referred to as "disentanglement," was to define new roles that would give each level of government clear responsibility and accountability for specific functions along with the authority and resources sufficient to carry out its role.

By mid-1993, negotiations for reform ended because of disagreements over the funding implications of changes in program delivery responsibilities as well as reductions in unconditional grants to municipalities resulting from the *Social Contract Act* and the Expenditure Control Plan.

Negotiations are inherently complicated by municipalities' diversity of size, structure, financial capacity, and the nature and extent of services provided. There have always been significant differences among municipalities in terms of their abilities to fund and deliver programs. Accordingly, it would be more appropriate to reform relationships with municipalities on a basis consistent with their capabilities.

Reforming the provincial-municipal relationship is further complicated by the extensive number of ministries from which consensus is required. Ministries that fund programs delivered by municipalities impose many procedural, reporting and accountability requirements for their programs to ensure grants are used as intended. However, audit reports we have issued in recent years on provincial programs delivered locally, such as road subsidies and water and sewage treatment facilities, have urged greater emphasis on measurement and reporting of results and the achievement of program objectives. A stronger yet simpler accountability relationship would exist if ministries focused more on the results being achieved and less on procedural matters.

In September 1994, in the absence of any agreement on disentanglement, a proposal was submitted by the Association of Municipalities of Ontario to the Province entitled *Ontario Charter: A Proposed Bill Of Rights For Local Governments*, requesting the Province to enshrine principles, values and rights for future roles and status of local governments in a charter or bill of rights. The Charter essentially proposes local responsibility for decisions and local services through more permissive legislation, municipal access to provincial decision-making, and clear delineation of roles and responsibilities of provincial-municipal partnerships. No action had been taken on this proposal as of May 1995.

As negotiated under the Municipal Sectoral Agreement of the Social Contract, a provincial-municipal task force was established in December 1993 with a mandate to identify duplication and overlaps in legislation, regulations, procedures and policies which could be changed to enable municipalities to reduce expenditures or enhance revenues. Released in September 1994, the task force's report contains 123 recommendations for improvements. While the recommendations are consistent with those made by previous task forces, few have been acted upon.

One area where significant progress has been made is in municipal land-use planning. Recent changes to legislation established specific roles and responsibilities for the Province and municipalities, helping to eliminate inconsistencies and unnecessary duplication in planning decisions. Within the reformed framework, the provincial government sets policy, municipal governments plan and develop their communities in accordance with that policy, and the Ontario Municipal Board adjudicates disputes.

#### **Recommendation:**

**The Ministry, in conjunction with other ministries, should take the necessary action to ensure that the relationship between the Province and municipalities promotes the most cost-effective use of resources, avoids overlaps and duplication and**

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strengthens accountability. This action should take into consideration the significant differences in financial, structural and human resources that exist between municipalities. The action may require changes in legislation.

***Ministry Response:***

*The Ministry recognizes that, despite a number of relatively recent attempts to address the issues, there are continuing problems with provincial and municipal services. The Ministry will put together an action plan over the fall and winter of 1995/96 which will:*

- *develop proposals for legislative and regulatory changes that will clearly define and distinguish the responsibilities of municipal governments and the Province;*
- *encourage other ministries and agencies to recognize the value of a strong municipal government sector in the provision of public services;*
- *promote clear and operative statements of provincial goals and interests so that municipal governments can perform their roles without the regulatory and administrative requisites of the Province;*
- *develop proposals for changes in municipal revenue sources for municipalities; and*
- *work with other ministries to review and revise the provincial/municipal system of transfer payments so that it is more reflective of what the Province wants to achieve and less of how to achieve it.*

*The Ministry expects that these actions will result in:*

- *the elimination of duplication and waste of municipal and provincial resources;*
- *an enhanced municipal ability to make and be accountable for local decisions;*
- *greater flexibility for municipal governments to manage their services;*
- *less government; and*
- *greater financial autonomy for municipal governments.*

## **MUNICIPAL SERVICES AND ORGANIZATION**

There are three types of municipal government structures in Ontario: the regional system, including Metropolitan Toronto; the county system; and the single tier system. Both regional and county municipal structures distribute responsibilities between an upper tier municipality, which provides services on a region-wide or county-wide basis, and several lower tier municipalities, which provide local services. Single tier municipalities are responsible for the provision of most local services to their residents. The following table shows the distribution of Ontario municipalities by type of structure together with the proportion of the population represented by each type.

	Upper Tier	Lower Tier	Single Tier	% of Population
Metropolitan Toronto	1	6	0	22
Regional Municipalities	12	87	0	42
Counties	26	483	22 <sup>1</sup>	29
Northern Ontario Municipalities	0	0	178	6
Areas without Municipal Status	n/a	n/a	n/a	1
Total of 815 Municipalities	39	576	200	100

Source: Ministry of Municipal Affairs

<sup>1</sup> The cities and separated towns within a county boundary are single tier municipalities if they choose not to be part of the county system.

While the split in service delivery responsibilities varies widely throughout the province, the following table summarizes the services generally provided by each tier.

Services Generally Provided	Upper Tier Regions	Upper Tier Counties	Lower Tier Within Regions	Lower Tier Within Counties	Single Tier
Arterial roads	x	x			x
Transit	x		x	x	x
Policing	x			x <sup>1</sup>	x <sup>1</sup>
Water & sewage treatment	x			x	x
Waste disposal	x			x	x
Health & social services	x	x			x
Local roads			x	x	x
Fire protection			x	x	x
Garbage collection			x	x	x
Recreation			x	x	x
Land-use planning	x	x	x	x	x

<sup>1</sup> Policing services are provided by the Ontario Provincial Police with or without charge to some 80% of lower and single tier municipalities.

The *Municipal Boundary Negotiations Act* requires that changes to municipal boundaries be locally initiated and decided. The Ministry's role is limited to providing analysis, advice and assistance on request. However, in serious and urgent situations where municipalities' local circumstances have warranted restructuring but local councils lacked the consen-

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sus or the ability to act, the Ministry has sought special legislation to impose a solution on the affected municipalities.

Over the last five years there have been significant efforts on the part of the Ministry and certain municipalities to study municipal services and organizational arrangements. The results of at least 10 studies consistently indicate the need to rationalize and restructure existing local government services and structures to make them more cost effective, fair and accountable. However, for the most part local councils have chosen not to implement the recommendations. Over the last 10 years, there has been little change in the number of municipalities, from 838 to 815.

Local decisions not to restructure were strongly influenced by the impact that recommended changes would have on both local taxes and provincial funding, competing municipal interests and a desire to maintain the status quo.

In other jurisdictions, such as Quebec, Alberta, New Zealand and the state of Victoria in Australia, significant municipal restructuring has occurred. Their reforms have focused on deregulating municipal services and practices, eliminating the barriers to reducing the overall number of municipalities, and reducing municipalities' financial dependency on higher governments. Events in these and other jurisdictions would indicate that Ontario is lagging behind other jurisdictions that have recognized the need to rationalize local government services and structures.

While all levels of local government need to be reviewed, each level presents unique circumstances, problems and opportunities for improvement. These are discussed below.

#### GREATER TORONTO AREA (GTA)

In response to public concerns that the whole area, consisting of 30 area municipalities and five regional governments, is over-governed and not cost effective in providing services, a task force was established on February 16, 1995 with a mandate to assess the governance and economic competitiveness of the GTA. Its work is to include research into state-of-the-art urban governance practices in cities around the world in order to make use of better structures already developed. The task force must make final recommendations by the fall of 1995.

Key concerns about the GTA include:

- decisions for services, such as transit, water, economic development and waste, are being made in isolation by each municipality rather than for the entire GTA. Demographic and economic changes in area municipalities have resulted in the need to rationalize services and municipal boundaries to reduce duplication and excessive administration, including decisions about which services would be best co-ordinated over the entire area and which would be best provided locally; and
- inconsistent and outdated approaches to property tax assessment within and among area municipalities result in inequities in cost-sharing for area-wide services and in competitive disadvantages within and among jurisdictions for attracting and retaining businesses.

#### REGIONAL MUNICIPALITIES

In addition to the regions being studied in the GTA, the Ministry has completed studies of the Ottawa-Carleton and Haldimand-Norfolk regions within the last five years. Both of

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these locally initiated studies recommended a reduction in the number of local and regional municipal councillors to create more focused, responsive and effective councils. The studies also identified a need to rationalize services between the upper and lower tier governments. Similar studies are in process for three other regions, but no studies are planned for the remaining regions.

New legislation for the Ottawa-Carleton region was approved in May 1994. Major changes included a reduction in size of the regional council from 33 to 19 councillors, similar reductions to lower tier municipalities' councils, new requirements that all regional councillors be elected, and a new regional police service.

## COUNTIES

In January 1990, the Minister of Municipal Affairs issued provincial guidelines for county studies entitled *Towards an Ideal County—Principles and Programs for a Strong County Government System in Ontario*. The guidelines identified three serious problems associated with counties:

- unfair representation of municipalities on county councils;
- a proliferation of boundary disputes and of inter-municipal agreements within and between counties, as well as with separated municipalities; and
- the inability of many small municipalities to deal effectively with growth pressures and increasingly complex and expensive service demands.

Working group committees of municipal councillors were formed, with provincial staff assigned to provide assistance. The scope of the reviews was to define for the county and local municipalities the most appropriate form of local government in terms of municipal structure, boundaries, organization, administration and responsibilities.

Ten studies were started; final reports were issued for eight with two studies discontinued by their county councils prior to completion. In general, the recommendations promoted amalgamation of lower tier municipalities, more equitable representation including fewer councillors at the county council, and transfer of several common services, such as planning, to the county level. However, the studies also addressed impediments to the acceptance of those recommendations:

- several provincial conditional grant programs act as a disincentive for municipalities to increase their size. For example, smaller municipalities receive free police services, higher grant rates for capital sewer and water projects, and additional recreation and library grants. Rural municipalities receive higher road subsidies;
- municipalities choosing to amalgamate require a reassessment of all property taxes to resolve inter-municipal disparities in rates and assessments. This can result in significant property tax increases for some ratepayers; and
- existing structures have resulted in a proliferation of over 1,000 agencies, boards, and commissions in Ontario. While such bodies can achieve some economies by providing shared services such as public utilities, water and sewer systems, fire protection, libraries and recreational facilities, they also have the drawback of requiring extensive negotiations between municipalities for their creation and maintenance, and are less accountable since their boards are usually appointed. The existence of several joint agencies, boards and commissions to provide services for neighbouring municipalities may indicate that the existing boundaries are in need of review.

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In all cases except one, the recommendations contained in the final reports were defeated by the county councils, mostly due to the unwillingness of municipal councillors to change the status of long standing communities. Local accountability for county restructuring is weakened because county councillors are not directly elected to the county council but are elected locally to represent their municipalities. Thus, local unwillingness to change can strongly influence decisions required to make the county as a whole more cost effective.

As of May 1995, no further county studies were in process or planned by the Ministry.

## AREAS WITHOUT MUNICIPAL STATUS

There are approximately 50,000 people living in unincorporated areas in Northern Ontario, mostly in fringe areas outside municipalities or in small settlements. There is no co-ordinated, comprehensive provincial strategy for determining the level of support and services to be provided for residents choosing to live in areas without municipal organization. Our observations, which focus mostly on residents choosing to locate in the fringe areas outside municipalities, are as follows:

- in unincorporated areas, services and support which would otherwise be provided by municipalities are provided by up to 10 ministries, each with its own unique policies for doing so, at little or no cost to the residents of these areas. Diminishing the levels of service provided by ministries is difficult. For example, fewer waste management sites increase the risk of unauthorized dumping to the detriment of tourism, health and safety, and the environment. However, where adequate services are provided there is little incentive for residents in unincorporated areas to incorporate and manage their own affairs;
- many essential services are provided by the nearest area municipality through agreement or arrangement, or are provided without an agreement by unincorporated area residents using the municipality's facilities. While many municipalities have resorted to user fees for services such as recreational facilities in an effort to recoup some costs, user fees may not adequately fund the full cost of non-municipal use of these facilities, increasing the burden on municipal ratepayers;
- unincorporated area residents pay a portion of the costs for direct services received from their local service or roads board. However, for services such as welfare or senior and social services, the Province pays the unincorporated area resident's share to municipalities which then provide these services beyond their boundaries;
- the Ministry of Finance levies a Provincial Land Tax in unincorporated areas. Although seemingly a property tax, the assessment rates are so outdated that the tax is insufficient to compensate for service costs incurred. Statistics from the Ministry of Finance indicate that 64% of residents pay less than \$25 annually and 97% pay less than \$100 toward services other than education. No plans are in place to update the tax.

The Fair Tax Commission recently reported that the Provincial Land Tax acts as a disincentive for unincorporated areas to incorporate or annex with neighbouring municipalities. They recommended that special procedures be developed to facilitate the expansion of borders of municipalities into developed fringe areas or, where local taxation and local government are not possible or appropriate, the tax should be set at a level designed to eliminate the incentive to locate in such areas;

- development in unincorporated areas is often unregulated and uncontrolled. Planning and local service and road boards do not have the financial or human resources for

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inspections or enforcing bylaws. Ministry officials are often required to inspect properties in the unincorporated areas;

- the *Municipal Boundary Negotiations Act* does not apply to municipalities proposing annexation of unincorporated areas. That process requires hearings before the Ontario Municipal Board. The costs for municipalities wishing to annex unincorporated areas can be prohibitive. Unincorporated area residents and companies with interests in the areas have proven to be well organized in fighting bids to annex them. Financial benefits gained by the municipality may not be sufficient to recover the cost of the Ontario Municipal Board process.

While there have been several initiatives to deal with unincorporated areas in the past, the problems remain.

During our audit, the Ministry, in conjunction with other affected ministries, was in the process of summarizing all the issues and problems facing unincorporated areas. In our view, criteria are needed for deciding when municipal government should be imposed in these areas. Minimum population densities, basic service level requirements, and economic and environmental concerns all need to be considered when choosing the most appropriate provider of services. For areas that remain unorganized, there is a need to rationalize and limit services provided by all ministries, and to recover costs more fairly.

#### **Recommendation:**

**To ensure that municipal services and structures are cost effective, fair and accountable, the Ministry, in conjunction with other affected ministries, should:**

- identify and eliminate disincentives for logical restructuring and incorporation;
- develop guidelines and criteria to facilitate provincial and municipal decisions about appropriate forms of municipal governments;
- research restructuring initiatives in other jurisdictions to determine their applicability to Ontario's situation;
- develop a comprehensive provincial strategy for funding and providing services in unincorporated areas; and
- seek legislative changes that give the Ministry more latitude to initiate or assist municipalities to implement restructuring of local services and organizations where benefits warrant.

#### **Ministry Response:**

***The organization and structure of municipal government does not lend itself to the most effective and efficient provision of municipal services. The Ministry will:***

- ***develop proposals to facilitate reduction of government entities, including boards and commissions;***
- ***remove the barriers in Ministry policies and programs that prevent, or make difficult, the joint and/or co-operative provision of services by groups of municipalities;***
- ***work with other ministries to remove the disincentives for municipalities to increase their size through annexation or amalgamation;***

- 
- *develop alternative, more effective and less costly mechanisms to facilitate municipal agreements on annexation and amalgamation;*
  - *develop criteria for determining when municipal governments should be established or extended into currently unorganized areas with reference to indicators such as population size and density, service requirements and fiscal base; and*
  - *with reference to a large number of studies which have been recently undertaken, develop proposals and legislation to provide structures which would reduce government, eliminate overlap of services, increase accountability to the taxpayer and provide more cost-efficient services.*

*The Ministry expects these actions will result in:*

- *government savings;*
- *more effective and efficient provision of services;*
- *greater autonomy and clearer accountability for both the provincial and municipal governments; and*
- *improved choice of and accessibility to municipal services and greater and more accurate information about the cost and quality of services provided by each level of government.*

## PERFORMANCE REPORTING BY MUNICIPALITIES

The *Municipal Act* requires municipalities to provide annually to each ratepayer a statement of expenditures, revenue, capital operations, balance sheet, notes to the financial statements, the auditor's report, and the mill rate information for the current and previous years. Municipalities usually include details of sources and uses of funds received. This information is required to be included along with tax assessments or published in the local newspaper. Many municipalities do both.

Some municipalities have made significant efforts to publish additional information for ratepayers, usually in their annual reports, that more clearly indicates the levels of service they provide. A few have even made limited comparisons of their services and costs to those of other municipalities.

However, there are no standards or benchmarks for municipalities to use to measure and report their performances. Many municipalities have implemented performance measurement systems in some or all of their departments. However, the extent to which these measures are shared with other municipalities, the number that use them, and whether meaningful measures are reported to ratepayers is not known by the Ministry.

Meaningful comparisons of municipalities' costs for providing similar services are not currently made because the information required to do so is not collected by the Ministry or municipal sector. During our audit, the Ministry was working with various municipal associations to initiate a project to collect this information.

Having the necessary comparative information would help provide ratepayers, municipalities and the Ministry with useful benchmarks for identifying best practices and evaluating costs. Planning and budgeting efforts would also be enhanced if fair and relevant comparative data were available. Better performance reporting would also permit legisla-

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tion and monitoring efforts by various ministries to focus more on results and less on process.

Local governments in some other jurisdictions are making much greater efforts to measure and report on their service levels and performance, due largely to the existence of more demanding legislation in this regard. For example, legislative requirements in New Zealand require local authorities to prepare "Statements of Service Performance." While these requirements are still relatively new, local authorities there have made significant progress towards reporting on the quality of their performances, including comparing actual results against intended targets and determining appropriate performance measures for specific activities.

## 3.14

### **Recommendations:**

**The Ministry should encourage municipalities to report both financial and service level performance information to their ratepayers in order to achieve strong local accountability for the economy, efficiency and effectiveness of municipal services. Practices already established in other jurisdictions should be investigated for their applicability to Ontario.**

**To help municipalities collect and report fair and relevant performance information, the Ministry should promote the creation of a comprehensive database of comparative data and benchmarks on service levels, associated costs and other relevant performance data.**

### **Ministry Response:**

***The municipal taxpayers in Ontario generally lack information by which they can assess the performance of their municipal governments, particularly on a comparative basis.***

***The Ministry will, by the spring of 1996:***

- ***develop a "bench marking" project whereby each municipality will be able to gauge its relative performance;***
- ***undertake an information and advisory needs analysis to determine the level and scope of the taxpayer's information needs;***
- ***develop an information collection and management strategy that is cost-effective and addresses the differing levels of information needed within the diverse municipalities;***
- ***more effectively utilize existing sources and seek out new information that will be useful to the taxpayer in assessing the performance of government;***
- ***promote intermunicipal sharing of information; and***
- ***develop effective ways for municipal governments to disseminate information.***

***The results expected are:***

- ***more efficient municipal governments; and***
- ***a better informed taxpayer and greater government accountability.***

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## MUNICIPAL FINANCES

The *Municipal Affairs Act* sets out the broad powers of the Ministry to oversee municipal activities. The Ministry may:

- prescribe and regulate municipal accounting practices and reporting and audit requirements;
- inquire, study, report and advise as to any municipal affairs in any municipality, including finances, institutions, government and administration;
- conduct audits, hearings or investigations, at any time, into any or all of the affairs, financial or otherwise, of a municipality or local board for the purposes of avoiding any default by a municipality in meeting its obligations and, as a result, make such orders as appropriate for the municipality to carry out; and
- in the event that a municipality's solvency appears threatened and the Ontario Municipal Board approves such actions, the Ministry can exercise additional powers of extensive supervision and control over all aspects of a municipality.

The *Municipal Act* contains several provisions intended to protect the financial condition of municipalities. For example, the Act restricts the extent to which municipalities can incur short-term and long-term debt, and prohibits municipalities from budgeting for a deficit. If a deficit is incurred, the municipality must increase local taxes to pay for it in the next period. Municipalities and their auditors must provide the Ministry with audited annual financial statements together with completed financial information packages and questionnaires further detailing the municipalities' financial affairs.

Regional office staff provide municipalities with advice, education and a forum for consultation on new policy/program initiatives and legislation. They are also responsible for monitoring their assigned municipalities for financial stability and compliance with legislation as well as for conducting other activities relevant to municipalities.

In addition, staff spend a substantial amount of time responding to questions from municipalities and the public regarding municipal administration, finance, land-use planning, and provincial policies and programs.

## MONITORING OF MUNICIPALITIES' FINANCIAL CONDITIONS

Municipalities are required to submit financial information for the year ended December 31 to the Ministry's head office and to their assigned regional offices by April 30 of the following year. Once determined to be complete, this information is entered into the municipal information database at head office and a report of financial indicators is obtained by regional office staff for use in monitoring the financial condition of municipalities.

Regional office staff review the report and financial documents to determine if established thresholds and criteria have been exceeded and may take follow-up action as appropriate. Such action may include advising the municipality of the Ministry's concern, or an in-depth inquiry into its affairs or, for more serious cases, Ministry supervision of the municipality's financial affairs.

According to regional staff and the results of our review of their files, monitoring of municipalities' financial condition has been a low priority and little effort has been made to ensure that reviews are timely and effective. Diminished monitoring efforts have resulted

in: systems and procedures which do not sufficiently focus on municipalities that are in financial difficulty; reliance on outdated information for assessing financial condition; and assessment criteria that are incomplete and poorly understood by the staff responsible for monitoring. Specifically:

- regional offices do not track and report on the quality and results of their monitoring activities either internally or to head office. During our visits to regional offices in February 1995, approximately 10 months after submissions were due from municipalities for 1993, only one of the three regional offices had substantially completed its financial reviews;
- where reviews had been done, their quality and consistency were generally unsatisfactory. Many reviewers were insufficiently trained in financial analysis. None of the regional offices we visited made efforts to obtain missing documents such as financial statements and auditor questionnaires. When such documents were received, they were often not reviewed as part of the financial review process;
- regional offices used different financial criteria and different threshold levels of financial performance to monitor their municipalities.

We had several concerns with the financial indicators that were in use. For instance: regional office staff apply the same financial indicators and thresholds to all municipalities regardless of size or financial capacity; financial indicators and information consider only the short-term viability of municipalities—over half the municipalities did not report their five-year forecast of long-term capital and debt financing needs as required; municipalities that were routinely incurring operating deficits were not identified—we noted that some 40 municipalities had incurred operating deficits for each of the last three years; and, despite significant changes to legislation in June 1992 to allow municipalities greater flexibility to manage their capital debts, only one regional office visited had established new criteria to ensure municipalities did not exceed their legislated long-term debt repayment limits;

- neither procedures nor guidelines have been established to help staff decide what action they should take when indicators suggest that a municipality is in financial difficulty. When thresholds had been exceeded, there were few instances where any follow-up was made to communicate the Ministry's concern to the municipality, despite the fact that a number of municipalities had significantly exceeded established thresholds. For example, while regional offices considered an acceptable level of uncollected taxes to be at or below 12% of annual taxation revenue (or 18%, depending on the regional office) by December 31, 1993, some 45 municipalities had uncollected taxes of between 25% and over 100% of their annual tax revenue; and
- there was no requirement for staff to prepare periodic updates of the financial condition of their assigned municipalities, nor was there any indication that more timely financial data, such as municipal budget information, were used for interim tracking of municipalities experiencing financial difficulties.

In addition, we noted that three municipalities had been under supervision for several years. Although all were either being considered for release or were released from supervision during our audit, none were required to submit multi-year, long-term budgets, management plans or risk analyses of forecasts to assess the likelihood that their improved financial situations would continue. Such analyses and forecasts would have been prudent given that one of these municipalities was expected to repay a ten-year loan to the Ministry and another was released from supervision despite having incurred an operating deficit

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for each of the past three years. In instances where municipalities are financially unstable, longer term projections and risk analyses would assist both the municipalities and Ministry efforts to plan, monitor and improve their financial conditions.

Regional office staff advised us that they also relied on informal procedures to keep informed of the financial status of their assigned municipalities, for example, through municipal networking, collecting newspaper articles and communicating with municipal associations. However, the results of these informal procedures were rarely documented.

A risk assessment would help to identify financially troubled municipalities and to focus Ministry attention on them. Indicators that would be useful in assessing risk include the level of reserves, the extent of unpaid taxes, volatility of tax revenues, undue reliance on provincial funding for sustaining operations, and known requirements for large capital expenditures. A risk assessment process would also identify financially strong municipalities which could be reviewed less frequently or thoroughly.

With continued pressures on the revenues and expenditures of both the province and local governments, the need for effective, risk-based monitoring of the financial condition of municipalities will only increase.

#### **Recommendation:**

**In order to effectively monitor the financial condition of municipalities, the Ministry should:**

- review its information systems, procedures and staff training needs to improve the timeliness, quality and consistency of financial monitoring;
- perform risk assessments of municipalities to allow the Ministry to better focus its efforts on municipalities most likely to require help; and
- establish procedures and requirements to manage and release municipalities requiring supervision.

#### **Ministry Response:**

*In today's economic and fiscal climate, most municipalities face financial difficulty in providing adequate services while having to maintain or reduce tax levels. This is particularly true of those municipalities where the local economy is based on industries in transition or on a single industry which is no longer viable. The Ministry will, by the summer 1996:*

- review the adequacy and timeliness of its information base to alert both Ministry and municipal officials that a financial problem is emerging;
- develop a strategy for identifying and monitoring high-risk municipalities and for acting prior to crises occurring;
- ensure that education and training are available to Ministry staff to assist them in advising elected and appointed officials of high-risk municipalities and, by working with various groups such as the Association of Municipal Clerks and Treasurers of Ontario, ensure that municipal officials similarly have appropriate training; and

- 
- *as previously stated, develop proposals to enable municipalities to more readily join together to provide more efficient services and to pool resources, making them more financially viable.*

## FINANCIAL ACCOUNTING AND REPORTING PRINCIPLES

A key component of local accountability is the public reporting of audited financial statements each year.

In reviewing a number of municipal financial statements, we identified several differences between the reporting practices that have been approved by the Ministry and those established as generally accepted by the Canadian Institute of Chartered Accountants, including those published recently in the Institute's *Public Sector Accounting and Auditing Handbook*. For example, municipalities do not fully record all liabilities in their statements, such as vested sick leave and accrued interest on debt. Rather they disclose this information in notes to financial statements. For one municipality, the cumulative effect of actual liabilities not included in the financial statements was estimated at \$400 million.

We have provided specific details of areas requiring review and updating with municipalities and the Institute in a separate management letter to the Ministry.

### Recommendation:

In light of the many changes to government financial reporting practices in recent years, the Ministry should prescribe the use of more updated accounting principles for financial reporting by municipalities in Ontario.

### Ministry Response:

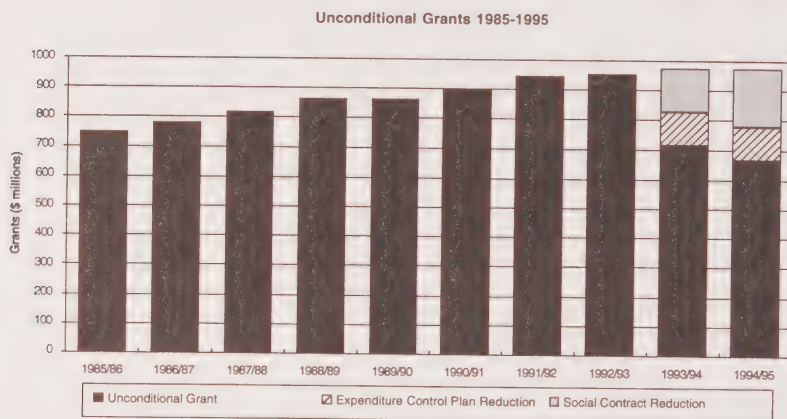
*The great diversity among municipalities in Ontario has given rise to a wide range of reporting practices and accounting systems. The taxpayers are accordingly variously informed and able to hold their municipal governments accountable. In order to address this problem, the Ministry, by the fall of 1996, will:*

- *work with the Association of Municipal Clerks and Treasurers of Ontario, the Municipal Finance Officers' Association and the Canadian Institute of Chartered Accountants to adapt and implement the accounting and reporting practices contained in the Institute's Public Sector Accounting and Auditing Handbook in the municipal government sector in Ontario; and*
- *review the Ministry's Municipal Financial Reporting Handbook to resolve the differences between it and the Institute's handbook.*

*These actions will result in better and more uniform information available to municipal taxpayers so that they are more able to assess the financial management of municipalities, particularly on a comparative basis.*

## UNCONDITIONAL GRANTS

Under the *Ontario Unconditional Grants Act* and Regulation, payments are made to municipalities to help offset general operating costs and reduce the tax burden on local ratepayers. The amounts of unconditional grants to municipalities over the last ten years are shown below.



*Source: Ministry of Municipal Affairs*

For the 1993/94 and 1994/95 fiscal years, unconditional grants were reduced by the amount of municipalities' expenditure reduction obligations under the *Social Contract Act* and Expenditure Control Program.

We concluded that procedures and controls were satisfactory for payments made under the *Ontario Unconditional Grants Act*. However, recent allocation methods that base individual municipalities' entitlements for unconditional grants on flat percentage changes from the previous year's funding levels perpetuate concerns we raised in 1988 that grant formulas do not adequately address the changing economic conditions of municipalities from year to year.

The total amount of unconditional grants for each fiscal year is announced in the *Budget* for that period. The Ministry determines individual municipalities' entitlements according to grant formulas stipulated in the Act and Regulation. The basic formulas, established in 1973, provide general purpose funds based on the number of households in a municipality as well as specific purpose funds such as to assist those in the north, those required to pay for their police services and those whose average assessment is below the provincial standard. The Ministry has some leeway to revise components of the basic formulas by Regulation in order to address current and forecasted economic conditions.

In our 1988 *Annual Report*, we questioned whether certain basic grant formulas provided the Ministry with sufficient flexibility to address the changing economic conditions of municipalities. We concluded that the method used to calculate assistance grants for resource-poor municipalities should be re-examined and that the Northern Support Grant

rate of 18% of a northern municipality's tax revenue warranted reassessment. The Ministry responded by stating that they were committed to undertake a complete review of the Unconditional Grants Program to ensure that it continued to meet the Ministry's and government's objective in the most effective way.

While no formal review was undertaken, we understand that amounts paid to municipalities were discussed during the recent provincial-municipal advisory committee negotiations on fiscal relationships between the Province and municipalities. As mentioned earlier, negotiations were discontinued without agreement.

The process for determining each municipality's allocations has also significantly changed since our 1988 report. While provisions in the Act and Regulation would normally cause allocations to municipalities to change each year with changes in factors such as households and assessment base, for fiscal years 1988/89 and 1990/91 through 1994/95 individual entitlements have been based on flat percentage changes from the previous year's funding levels. Ministry staff revised amounts used in the formulas to arrive at the percentage changes announced in the Budget in each of those years.

Consequently, the concerns we raised in 1988 remain unresolved.

#### **Recommendation:**

**The Ministry should review the method of allocating unconditional grant payments to municipalities to determine whether they appropriately reflect municipalities' needs and changes to their economic conditions. If necessary, the Ministry should seek revisions to the legislation.**

#### **Ministry Response:**

*Over the past decade, fiscal considerations and the Social Contract Act have caused the formulas used in the Unconditional Grants program to effectively become unusable. The Ministry, by the spring of 1996, will:*

- *work with other ministries to review the entire provincial/municipal financial relationship; and*
- *depending upon the results of that review, develop proposals for a new structure and formulation of municipal transfer payments, including the unconditional grants.*

*The Ministry expects that provincial grants will reflect provincial priorities, and the formulas will be adjusted accordingly to reflect the differing needs and economic conditions of municipalities.*

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## MONITORING AND REPORTING MINISTRY EFFECTIVENESS

The *Ministry of Municipal Affairs and Housing Act* requires the Ministry of Municipal Affairs and Housing to submit an annual report to the Legislative Assembly. Although at the time of our audit the Ministry of Municipal Affairs had been separated from the Ministry of Housing since 1985, we are not aware of any legislation that exempted it from this requirement. The Ministry's most recent annual report was for the 1991/92 fiscal year, and it has since stopped producing them.

The Ministry has implemented several initiatives to review its accomplishments towards achieving stated goals and objectives. In addition, there are ongoing ministry-wide and branch reviews of the Ministry's current and future business directions and organizational requirements. However, the results of these initiatives and reviews have largely remained internal to the Ministry.

Internal efforts to measure effectiveness have generally focused on process rather than results. For example, legislative changes that improve municipal governance are worthy accomplishments. However, efforts to monitor Ministry effectiveness lack good information to determine what impact the Ministry has had on the activities and performance of municipalities.

Many of the Ministry's activities involve policy development and consultation and cannot be readily measured. However, some of their activities are measurable. For example, the financial conditions of municipalities and their dependency on grants could be gauged for efforts to promote strong municipalities.

During our audit, regional office staff were planning education programs to update municipalities on new land-use planning and conflict-of-interest legislative requirements. Monitoring the impact of such training efforts and of efforts to convince municipalities to adopt improved management practices, such as formal strategic planning and effective audit processes, are possible indicators of success in promoting effective and accountable local governance.

Conducting periodic surveys and site visits to determine the extent of understanding and implementation of good management practices would provide information necessary to report on the impact of Ministry initiatives, as well as to help plan future assistance efforts.

### Recommendation:

**Annual reporting to the Legislature should be reinstated, as required by the *Ministry of Municipal Affairs and Housing Act*, in a manner that ensures that legislators are fully apprised of the Ministry's activities and results. The annual report should include sufficient relevant information to evaluate the Ministry's effectiveness, including the impact of its activities on municipal governance, accountability, cost effectiveness and financial condition.**

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**Ministry Response:**

*The newly formed Ministry of Municipal Affairs and Housing will prepare an annual report this year. It will report on the Ministry's activities and the results it has achieved during the year to enable an evaluation of the performance of the Ministry.*

**3.14**

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# APPENDIX A

## ESTIMATE OF TOTAL FINANCIAL TRANSFER PAYMENTS TO MUNICIPALITIES BY SOURCE MINISTRY FOR FISCAL YEAR

Ministry and Major Programs	\$ millions
Agriculture, Food and Forestry Development	3.7
Community and Social Services Social Assistance Housing Social Services Children Services	1,452.3
Customs, Transport and Revenue Public Utilities	42.1
Economic Development and Trade Business Development Bank Small Business Development Bank	40.8
Environment and Energy Water and Sewer Waste Management	17.2
Health Community Development	1.8
Justice Adult Correctional Centre Provincial Probation Services Parole for the aged Public Community Development	21.9
Labour and Labour Relations Labour Relations Board Labour Relations Board	148.1
Public Works Construction for Public Management	1.2
Regional Development and Wines Small Business Development Bank Social Development	12.4
Security, Criminal and Correctional Services Police Public Services Program	4.3
Transportation Roads Trains Airlines	1,422.3
Other Financial Transfer Payments	5,000.4
Ministry of Health - Unemployment Compensation	100.0
Capital Transfer Payments - Infrastructure	1,229.7

# Aviation, Flood and Fire Management Activity

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8.15

The Aviation, Flood and Fire Management activity of the Ministry of Natural Resources' Operations Program provides:

- forest fire management services for the province, including the development of fire management policies and strategies, fire detection and the basic resources required for the control of forest fires;
- aviation crews and equipment for forest fire management efforts and utility transport and other specialized aviation services to all government ministries; and
- flood forecasting and warning to minimize the effects of water-related hazards through the co-ordination of flood forecasting and emergency response.

For fire management purposes, the Ministry has divided the province into three zones — intensive, measured and extensive. The intensive zone comprises forests used for recreational and industrial purposes, some of which are close to population centres. Fires in this zone are detected and extinguished as quickly as possible.

The measured zone is made up of areas where fire may have the potential to cause some social disruption and future resource impact, but will be less detrimental than fires in the intensive zones. Fires in this zone are attacked, but if they escape the initial attack, may receive a more limited response than fires in the intensive zone.

The extensive zone includes large parts of Northern Ontario that are generally thinly populated. Since fires in this zone do not usually threaten human populations or commercial or private property, the Ministry normally allows them to burn themselves out.

Program expenditures for 1993/94 totalled approximately \$65 million, of which approximately \$51 million was incurred for fire management activities excluding related aviation services. The latter amount includes approximately \$10 million in extra firefighting costs. These costs vary significantly from year to year depending on the number of fires to be suppressed. Most of the remaining \$14 million in expenditures was incurred for aviation services since flood control costs totalled only approximately \$500,000.

## AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to assess whether:

- reasonable standards and procedures have been established for the prevention, detection and suppression of forest fires, and for aviation services;

- 
- operations are carried out with due regard for economy and efficiency; and
  - procedures to measure and report on program efficiency and effectiveness are satisfactory.

Our audit included a review and analysis of all relevant, available documentation and management reports pertaining to this activity as well as in-depth interviews with fire and aviation management personnel. However, our audit did not include a review of the flood control program in view of its relatively small budget and limited activities.

## OVERALL AUDIT OBSERVATIONS

The firefighting activity has three main components—fire detection, suppression and prevention. We found that the Ministry had established reasonable standards for the detection and suppression of fires and that these standards were generally being met. For example, Ministry standards require fires in the intensive zone to be suppressed by noon the day after they are detected; this was accomplished in 48 of the 50 fire suppression cases we examined. In the other two, the fires were suppressed by 5:00 p.m. on the day after their detection.

However, we found that the Ministry had not established appropriate standards for fire prevention. As well, improvements in operating procedures and management information are necessary to ensure that fire management and aviation-related activities are undertaken in an economical and efficient manner. Because it lacks appropriate information, the Ministry cannot monitor the cost effectiveness of the fire management and aviation services it provides and therefore cannot identify situations where corrective action should be taken.

Ministry expectations for the provision of aviation services were generally being met. However, improvements are required to provide aviation services more economically and efficiently.

## DETAILED AUDIT OBSERVATIONS

### FIRE MANAGEMENT

The objectives of the fire management program are “to prevent injury, value loss and social disruption resulting from . . . forest fire[s]” and “to promote understanding of the ecological role of fire and utilize its beneficial effects in resource management.”

The fire season normally runs from April 1 to October 31 and peaks during July and August. Within the intensive zone, the causes of fires and the number of hectares burned are as follows:

Cause	Fires Suppressed				Hectares Burned			
	1994		1983-94 Average		1994		1983-94 Average	
	No.	%	No.	%	No.	%	No.	%
Lightning	255	27	605	39	2,136	47	35,859 *	73
Accidental	580	61	730	47	1,423	31	11,108	23
Industrial	81	4	176	11	895	19	1,925	4
Arson	37	8	43	3	127	3	145	—
	953	100	1,554	100	4,581	100	49,037	100

\* The magnitude of this figure is due to several very large forest fires which occurred during this period

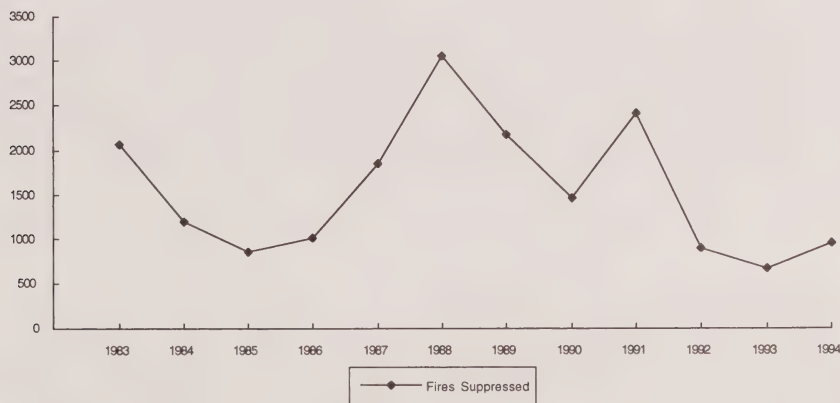
Source: Information provided by the Ministry of Natural Resources

## FIRE SUPPRESSION

### CAPACITY PLANNING

Capacity planning is important in ensuring that the Ministry has the appropriate quantity and mix of resources for efficient and effective fire management operations. However, effective capacity planning is complicated by the fact that the number of fires suppressed varies significantly from year to year and is impossible to predict in advance.

As the following graph illustrates, the number of fires suppressed by the Ministry since 1983 has ranged from about 700 to 3,000, with an average of 1,600.



Source: Information provided by the Ministry of Natural Resources

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Although the Ministry must cope with these significant fluctuations, it lacks the management information it needs to do so effectively. We found that the Ministry has not determined the number of fires it should be able to handle cost effectively. Also, the Ministry has not defined appropriate measures of fire-management capacity which in turn compromises its ability to measure the capacity it currently has. Thus, it cannot assess the impact of potential resource or staff constraints or of changes in the composition of its resources and cannot identify an optimal work force configuration.

For example, there is concern in the regional offices that the Fire Management activity will lose many of its more experienced personnel in the near future. However, the Ministry has not yet developed a systematic approach to determining the effect this would have on its fire management capabilities.

Also, the Ministry has not analyzed the availability and firefighting capacities of auxiliary and municipal fire crews. Although we were advised that auxiliary crews are used only for fires which have not been suppressed during the initial attack, there has been no analysis of the impediments to making greater use of auxiliary firefighters and no determination of whether the cost of eliminating these impediments would exceed the value of the benefits to be gained.

#### **Recommendation:**

##### **The Ministry should:**

- **define appropriate measures of fire-management capacity and use them to assess its own current capacity; and**
- **determine the most cost-effective combination of resources and organizational structures for fire-management and take the necessary steps to achieve it.**

##### **Ministry Response:**

*The Ministry agrees with the recommendation. There are on-going processes to define both the fire-management capacity and the most cost-effective mix of resources and structures. Level of protection analysis tools currently under development will assist in defining both the capacity and the most cost-effective mix of firefighting resources and organizational structures. On-going research initiatives are continuing to develop issue specific optimization models and associated management tools. The extent of development of this research is dependent on financial levels of the program.*

#### **MONITORING STAFF TIME**

Since approximately two-thirds of all fire management expenditures are for employee salaries and benefits, it is important that staff time be adequately monitored and controlled. For example, information about the time firefighters spend on standby, on alert, fighting fires or performing other duties would be useful in analyzing capacity utilization and deployment.

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However, we found that the Ministry does not have a system in place to monitor staff time and has not summarized tasks performed by staff in a manner suitable for review and analysis. As a result, the Ministry cannot:

- monitor or analyze the use of staff time;
- compare the use of staff time to established standards or norms; or
- determine the amount of staff time spent on activities that are unrelated to fire management and should be charged to other programs.

We were informed by the Ministry that for 1995 it performed a one time analysis of regular hours of work with a view to increasing utilization of fire suppression staff. It subsequently changed the regular hours of work to later in the day to increase utilization of fire suppression staff and avoid overtime expenditures.

3.15

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**Recommendation:**

**The Ministry should:**

- monitor and analyze how staff time is used; and
- establish standards or expectations for the amount of time to be spent on each type of activity and compare actual performances against those standards. Significant variances should be investigated and acted upon when necessary.

**Ministry Response:**

*The Ministry only partially agrees with this recommendation. The current system places emphasis on local supervisors ensuring staff are working effectively and utilized efficiently. The Fire Management Program functions co-operatively with local resource management staff in an integrated fashion. There is no need to track staff time to the degree outlined in the recommendation. The current system puts emphasis on the results of each work unit and not the individual staff actions taken to achieve the results.*

*The recommendation emphasizes a need to bring staff time reports together for review and analysis. Such a need to track staff time is not unique to the fire or aviation programs. The Ministry will look at requirements and systems to track the time for a variety of staff. The cost of implementing such a system across the Ministry will be weighed against the estimated benefits.*

**ATTACK BASE STRUCTURE**

Fire crews currently operate from 39 attack bases located throughout Northern Ontario. The number and location of these bases is intended to facilitate a quick response time for fire suppression activities. However, because many of these bases were established prior to the extensive use of aircraft in firefighting activities, the necessity for their number and location is no longer clear.

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Reorganizing into fewer but larger bases would reduce overhead expenses and would likely result in more efficient use of fewer fire crews. Such benefits would be offset to some extent by an increase in the Ministry's requirement for air transport, but since the Ministry's aircraft and pilots should often be available, any associated cost increases should not be significant.

The number of bases the Ministry requires is also affected by the availability of auxiliary and municipal firefighting forces. For example, fires within municipal boundaries constitute a significant portion of the activities of certain bases so that expanding municipal involvement in fire suppression could facilitate Ministry reduction and relocation of its attack bases.

#### **Recommendation:**

##### **The Ministry should:**

- **determine the most cost-effective number and location of attack bases, taking into account its air transport capabilities and reorganize accordingly; and**
- **assess the degree to which it can rely on auxiliary and municipal firefighting forces and the impact of such reliance on base requirements.**

#### **Ministry Response:**

*The Ministry agrees with this recommendation. The location of attack bases and use of auxiliary and municipal fire crews are integral to the cost-effectiveness and optimum capacity presented in the first recommendation. The development of fire management strategies will contribute to this need for the 1997 fire season. The program's ability to develop "modelling" techniques to determine optimum solutions will be dependent on financial capability.*

## **AGREEMENTS WITH MUNICIPALITIES AND FEDERAL GOVERNMENT**

The Fire Management activity provides fire suppression services for land which falls within municipal boundaries and for Aboriginal Reserves under federal jurisdiction.

The agreements with the municipalities are typically 30 to 40 years old. The charges to the municipalities originally established in these agreements have not been updated since the agreements were signed. As a result, the Ministry is now heavily subsidizing the cost of providing fire suppression services to municipalities.

Although the Ministry does not routinely track the cost of these services, management did so for a sample of four municipalities for the years 1991, 1992 and 1993. It found that the average annual cost of the services provided to these municipalities was \$214,000. However, we estimated that the costs recovered from the municipalities averaged only \$18,000 per year. Thus the annual cost to the Ministry for all 221 municipalities which receive these services is substantially in excess of costs recovered.

In addition, the federal government pays a fee to the Province for providing fire suppression services for 150 Aboriginal Reserves occupying 572,000 hectares. This fee is equal to a Reserve's area multiplied by the Province's average suppression cost per hectare for the previous five years. However, since the Ministry does not track the cost of providing this service to the federal government, it cannot determine whether its full costs are being recovered.

#### **Recommendation:**

**The Ministry should track the costs of fire suppression services provided to municipalities and the federal government. Rates for these services should then be adjusted in order to recover these costs.**

#### **Ministry Response:**

*The Ministry agrees with the recommendation. Costs are now collected on all reported fires or as described in agreements. Approaches to distribute overhead costs to these variable costs will be developed. The Ministry will develop an improved tracking and documenting procedure of fire suppression services to other agencies. Recoveries will be based on full cost of services.*

*Agreements with municipalities and federal agencies are currently being reviewed. Emphasis will be on finding the most cost-effective arrangement for all parties and minimizing the cost to taxpayers.*

## **PREVENTION AND ENFORCEMENT**

The *Forest Fires Prevention Act* and its accompanying Regulations define the fire areas the Province is responsible for, prohibit certain activities which could cause fires, specify when fire and work permits are necessary, and define offences and corresponding penalties.

In addition to enforcing the Act, the Ministry's prevention program includes educational programs for school children and partnerships with industry to promote fire prevention programs.

### **PERFORMANCE MEASUREMENT OF FIRE PREVENTION**

The Ministry's fire prevention program has three main components—education, engineering and enforcement. In our view, these components should be aimed at those individuals or groups responsible for causing fires. Over time, this targeting would be expected to increase appreciation of fire prevention practices and, ultimately, reduce preventable fires and related fire suppression costs.

Evaluating the effectiveness of the fire prevention program is essential to ensure that activities are appropriately targeted and that costs are justified.

We found that although the Ministry does collect some information on groups targeted and types of activities undertaken, that information is inadequate for evaluating the effectiveness of the program. As a result, there is no assurance that the Ministry's prevention

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efforts have had an appreciable effect on fire prevention practices or the incidence of preventable fires.

Information required to evaluate the fire prevention program would include:

- the number of preventable fires by perpetrator and an analysis of trends over time;
- the cost of preventable fires;
- the number of prosecutions and successful convictions for offences under the *Forest Fires Prevention Act*; and
- program costs.

#### **Recommendation:**

**The Ministry should monitor the effectiveness of its fire prevention programs and ensure that:**

- fire prevention efforts are effectively targeted; and
- the type of activities undertaken are appropriate for the target group.

#### **Ministry Response:**

***The Ministry agrees with the recommendation. The Ministry is currently developing a strategic plan for fire prevention. The plan includes a process to advance evaluation and effectiveness.***

### **ALLOCATION OF RESOURCES TO PREVENTION**

An analysis of data for the past 12 years indicates that 61% of suppressed fires were caused by human activity and that these fires accounted for 27% of hectares burned. Although reliable estimates of the cost of suppressing these fires are not available, 27% of total fire suppression costs is approximately \$14.6 million. That figure does not include any other property values that may have been lost. An effective prevention program, therefore, has the potential to save the Ministry millions of dollars in suppression costs annually.

However, the Ministry has made no attempt to relate the cost of its fire prevention effort to the savings that could be generated by avoidance of suppression costs. For example, there was no suggestion in the planning papers we reviewed that the objective of the prevention program was to reduce both suppression costs and the consequent firefighting capacity the Ministry needs to maintain. The 1994 prevention budget of \$1.5 million was not justified by a cost/benefit analysis which demonstrated that suppression costs would be reduced by a greater amount.

We noted that the Ministry is currently sponsoring a project to develop computer models which use statistical analysis to predict the impact of various allocations of resources to prevention, detection and suppression on the overall cost of forest fire management. If successful, this project will provide management with analytical tools to make cost-effective decisions about resource allocation.

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### Recommendation:

#### The Ministry should

- establish targets for prevention, for example to reduce the number of human-caused fires by a specific percentage; and
- better co-ordinate the suppression and prevention planning processes to relate the cost of fire prevention efforts to avoidance of fire suppression costs.

#### Ministry Response:

*The Ministry accepts the recommendation. The recommendation will be addressed through a strategic plan for fire prevention currently being developed. Better co-ordination of prevention and suppression planning come from the level of protection analysis.*

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### FINES AND COST RECOVERIES

Section 35 of the *Forest Fires Prevention Act* states that:

*Every person who disobeys or refuses or neglects to carry out any of the provisions of this Act or the regulations or of any order made thereunder or any condition of any permit issued thereunder is guilty of an offence and on conviction is liable to a fine of not more than \$1,000 or to imprisonment for a term of not more than three months, or to both, and such person is also liable to the Crown in the right of Ontario for any cost and expenses incurred by the Ministry in endeavouring to control or extinguish any fire caused by or resulting from such disobedience, refusal or neglect.*

However, the Ministry's intent with respect to the enforcement of this provision is not clear. For example, it has not established targets for obtaining fines, cost recoveries and/or criminal convictions for human-caused fires, nor has it established standards for fire investigations.

We also noted that the Ministry has not maintained statistics on fire-related prosecutions and convictions since 1988. However, statistics for the 1984-88 period show that only 11% of human-caused fires resulted in prosecutions.

Our review of a sample of 35 human-caused fires indicated that the perpetrator(s) were identified in 13 of them. However, only five cases resulted in prosecutions, four of which have been settled to date. We noted that the fines levied in these four cases totalled \$680 while the cost to the Ministry of suppressing the fires was approximately \$30,000.

We were advised by Ministry staff that as a rule the Ministry does not prosecute or recover costs from individuals and levies fines only when "flagrant disregard" of the *Forest Fires Prevention Act* is involved.

While we accept that the nature of these offences is such that perpetrators may not be found for a large proportion of them, our review of files and our discussions with staff lead

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us to conclude that the creation of stricter standards for investigations and laying charges would result in a much higher proportion of fines and cost recoveries. As the cost of suppressing human-caused fires almost certainly exceeds \$14 million, there is considerable scope to reduce the cost of the Fire Management activity to the Ministry, as well as providing a deterrent effect, by routinely seeking greater cost recovery.

#### **Recommendation:**

The Ministry should make more vigorous efforts to recover firefighting costs in cases where the perpetrators responsible for forest fires are known, as permitted by law.

#### **Ministry Response:**

*This recommendation impacts Ministry-wide compliance priorities, training, staffing and policy issues. The Ministry will analyze these issues and prepare an action plan. The need to collect management information around efforts to recover costs is noted.*

### **FIRE INVESTIGATION PRACTICES**

In addition to instituting a more active enforcement and prosecution process, the Ministry needs to strengthen its fire investigation capability. To accomplish this, the Ministry will have to address a number of fire investigation weaknesses including the following

- fire investigations are often not timely. Fire crew leaders, who normally undertake the investigation, cannot start until the fire has been brought under control. Thus several hours, sometimes days, can elapse before an investigation begins, during which time witnesses may leave the vicinity and physical evidence at the point of ignition may be destroyed;
- crew leaders are not professional investigators. They receive only 1.5 days of training for investigations. They also lack sufficient time for the task as they must get their crews back to their bases to get ready for the next fire;
- there are no quality assurance procedures such as evaluations of fire reports or reviews by qualified investigators;
- there is no mechanism in place through which best practices can be identified and promulgated throughout the organization; and
- the outcome of legal proceedings involving contraventions of the *Forest Fires Prevention Act* is not monitored. There are no postmortems to identify the reasons for the success or failure of a prosecution or to determine if procedures need to be changed.

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**Recommendation:**

The Ministry should take action to make fire investigations more timely and effective.

**Ministry Response:**

*The Ministry agrees that improved focus is required. The Ministry will review investigative techniques, procedures and reviews, and implement as necessary. The Ministry will also implement an improved audit and evaluation process.*

*The action plan will consider the current process and the role of compliance teams. In the interim, the Ministry will continue to focus crew leaders on fire suppression priorities.*

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## PERMIT ISSUING AND INSPECTION PRACTICES

The *Forest Fires Prevention Act* prohibits starting fires or carrying on industrial activities in or around forests except under the authority of fire or work permits respectively. Although the Act gives the Ministry the right to inspect fire and work sites, the Ministry has not established a systematic approach or objectives and expectations for the permit issuing and inspection functions.

Manual records of work permits issued are maintained at the Ministry's district offices. However, these records are not used, either alone or in conjunction with risk assessments and fire hazard information, to determine which work sites should be inspected or to prioritize those inspections. Consequently, there is no schedule or plan for this prevention activity and no inspection requirements for work sites.

Although standardized inspection procedures have been created for specific work sites, there are no controls in place to ensure that they are properly completed and filed for each inspection. Nor are controls in place to ensure that corrective action or follow-up inspections take place where serious problems are found.

In addition, fire permits are issued and associated records maintained by various issuers, typically local merchants. Fire permits list the names and addresses of the permit holders; when hazardous fire conditions occur, permit issuers are expected to use that information to contact permit holders to inform them that fires are no longer permitted. Fire permit sites are normally not inspected and there is no risk-rating process for them. The Ministry keeps no records of permits issued and does not ensure that permit holders are in fact contacted by the permit issuers when hazardous conditions develop.

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**Recommendation:****The Ministry should:**

- establish results-oriented objectives for the permit and inspection programs; and
- develop a risk-based inspection program for work and fire permits to ensure that licensees comply with the conditions of permit issuance.

**Ministry Response:**

*The Ministry agrees with the recommendation for a risk-inspection program for work and fire permits. The results-oriented objectives for the permit program will be captured in the strategic plan for prevention. The Ministry notes that few jurisdictions in North America have been successful in quantifying the number of human fire starts prevented due to a single prevention program.*

## AVIATION

The primary responsibility of the Ministry's Aviation Services program is to provide detection, transport and waterbomber aircraft to the Fire Management activity. The program also provides non-scheduled transport service to all government ministries as well as specialized services such as supplying aircraft for the Ministry's surveying program.

The Ministry owns 38 aircraft which it operates out of 13 water bases and 9 land bases. The Ministry also leased 34 aircraft from private carriers during the 1994 fire season and chartered aircraft throughout the year. In fact, the Ministry estimated that two thirds of all flying hours were accounted for by leased or chartered aircraft.

### AIRCRAFT UTILIZATION

The Ministry estimates the value of its 38 owned aircraft at approximately \$70 million. The cost of operating and maintaining this fleet is approximately \$6 million annually. In addition, we estimated that expenditures for leased and chartered aircraft during the 1994 fire season were approximately \$8.4 million.

Given the magnitude of these expenditures, it is important to ensure that Ministry-owned aircraft are utilized to the fullest extent practicable and that other aircraft are leased or chartered on an as-needed basis only.

Our review of the utilization of Ministry-owned aircraft indicated that it was generally low and decreasing. For example, while Ministry aircraft flew a total of 19,500 hours during 1987/88, they only flew 10,600 hours during 1993/94, a decrease of 45%. Most of this decrease was due to the reduced flying times of the Ministry's fixed-wing aircraft, which in many instances are no longer suitable for current requirements. The table below shows the decrease in flying hours from 1987/88 to 1993/94 for the three main types of Ministry-owned, fixed-wing aircraft:

Year	Total Flying Hours		
	Turbo Beaver (10)	Twin Otter (7)	Waterbomber (CL-215) (9)
1987/88	9,014	4,688	1,268
1988/89	8,272	4,466	2,150
1989/90	7,122	4,470	1,574
1990/91	5,072	3,698	1,181
1991/92	4,195	3,257	1,944
1992/93	3,281	2,762	943
1993/94	2,936	2,465	674

We noted that the use of the Ministry's six helicopters has increased during this period. They are considered fully utilized.

Although the requirement for flying hours varies with the severity of the fire season and other demands placed on the fleet, the Ministry continues to lease aircraft from the private sector at approximately the same rate, despite the decrease in the use of its own planes. Thus, while a significant portion of the Ministry-owned fleet is under-utilized, approximately two thirds of all flying hours are provided by leased or chartered aircraft.

For example, for the 1994 fire season, the Ministry leased nine helicopters and 25 fixed-wing "detection" and "bird-dog" aircraft. The latter are used for, respectively, spotting forest fires and assisting waterbombers during firefighting. We noted that the detection and bird-dog aircraft are smaller and lighter than the Ministry's Turbo Beavers and Twin Otters, and are better suited for their reconnaissance activities.

However, we also noted that the operating costs of flying Turbo Beavers and Twin Otters were, respectively, \$245 and \$460 per hour, which was lower than the cost of leasing detection and bird-dog aircraft at, respectively, \$359 and \$591 per hour.

Additional reasons for the decreasing use of Ministry-owned aircraft include the following:

- helicopters have become the vehicle of choice for moving crews and equipment, replacing the use of Ministry-owned Turbo Beavers and Twin Otters for such purposes; and
- all leased aircraft and most of the owned aircraft are assigned to the fire program for the duration of the fire season. There is no mechanism in place whereby these aircraft can be reassigned for other uses during periods of low fire incidence.

We also noted that the Ministry enters into seasonal lease agreements for helicopters which guarantee the operator a minimum number of hours or days at predetermined rates. We found that during the 1994 fire season the Ministry paid \$340,000 for guaranteed minimum hours and days it did not use. These flying hours could have been used by other Ministry

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programs for other purposes, such as forest management, but were not made available to them.

**Recommendation:**

**To better utilize its aviation resources, the Ministry should:**

- review the composition of its fleet with a view to retaining or acquiring only those aircraft which meet its current needs;
- continuously monitor the utilization of its aircraft and ensure that they are effectively used and deployed;
- charter or lease aircraft only when requirements cannot be met by its own fleet, and it is economical to do so; and
- make every effort to use leased aircraft for the minimum number of hours or days the aircraft have been contracted for.

**Ministry Response:**

*The Ministry agrees with the recommendation.*

*The air fleet composition will be reviewed by early 1996 to meet current and future needs.*

*The fourth recommendation stresses making every effort to fully use charter aircraft. While the Ministry agrees there were a number of instances in 1994 where aircraft could have been better used, and practices have been put in place to increase utilization, there will always be cases where additional money should not be spent (for example, on fuel) to use available hours which are not required.*

## **UTILIZATION OF PILOTS**

The Ministry's complement of pilots is 64 during the fire season and 31 during the rest of the year. The Ministry's 1993 *Aviation Program Review* reported a shortage of pilots in a number of locations due to budget constraints. The study suggested that the pilot complement at that time was deficient by 2.5 full-time equivalents. At the time of our audit we were advised that the shortfall was approximately six pilots and that, as a result, only 70% of the planned 1994/95 winter season flying could be completed.

The Aviation Section does not maintain records of how pilots spend their time and consequently cannot monitor or analyze how that time is used. We prepared our own analysis of pilot flying hours by region for the 1994 fire season (April 1 to October 31) and found the following:

Region	Average Hours Per Pilot
Northwest	126
Northeast	199
Central	211
Sault Ste. Marie	175
Ministry Average	152

In addition, we noted that, for pilots stationed at Malton, the average flying time is 110 hours per pilot. Although we did not prepare a similar analysis for the remainder of the year, we would expect the average flying hours to be significantly lower during the winter months.

We noted that, for the fire season, the maximum number of flight duty hours permissible under Transport Canada Regulations is 720 per pilot. This includes time for both pre- and post-flight checks and related record keeping. Although we were unable to determine how much time Ministry pilots spent on these activities, allowing a one-to-one ratio of pre- and post-flight checks to flight hours would indicate that pilots are on flight duty an average of approximately 42% of the maximum time permitted.

#### **Recommendation:**

##### **The Ministry should:**

- implement a time accounting and reporting system for pilots; and
- ensure that pilots are efficiently deployed and used.

##### **Ministry Response:**

*The Ministry will look at time tracking systems for all staff and implement them where they are cost beneficial. Pilots currently report time for mandatory requirements of Transport Canada. The existing system will be reviewed to see how it can provide appropriate management information.*

## **MAINTENANCE OPERATIONS**

The Maintenance Section is responsible for maintaining all aircraft owned by the Ministry except for two based at Malton. At the time of our audit, the Section's complement consisted of 47 aircraft maintenance engineers who are stationed at seven year-round air bases and one seasonal base.

As is the case for other fire management and aviation personnel, the Ministry does not keep track of its aircraft maintenance engineers' time and consequently is not in a position to:

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- allocate or monitor maintenance time and costs for individual aircraft;
  - monitor the time it takes to perform specific maintenance tasks and compare actual time spent to established standards; or
  - determine whether the number of aircraft maintenance engineers on staff is reasonable and justified.

As a result, the Ministry cannot monitor the downtime and total operating costs of individual aircraft and cannot identify cases where older aircraft have reached the point at which their operating costs are so much higher than those of new aircraft that they should be replaced.

The 1993 *Aviation Program Review* found that, based on the Ministry's aircraft fleet requirements, there was a need for 31 aircraft maintenance engineers as compared to the 52 then on staff. During our audit, we updated the analysis for an increase in projected flying hours for the 1994/95 fiscal year and determined a requirement for 39 aircraft maintenance engineers as compared to the 47 on staff at that time. We estimated that wages and benefits for the 8 excess staff amounted to \$466,000 per year.

#### **Recommendation:**

##### **The Ministry should:**

- implement a time accounting and cost allocation system for maintenance staff and use the information gained to evaluate the performance of both maintenance staff and aircraft; and
- determine the number of aircraft maintenance engineers required to service the Ministry's fleet and staff its facilities accordingly.

#### **Ministry Response:**

*The Ministry acknowledges the suggested amount of maintenance required for the existing aircraft fleet. Nevertheless, the number of bases, the requirement to stand by for unscheduled dispatch of the aircraft and other duties, complicates any comparison of staffing levels to industry norms. The Ministry agrees that a time tracking system will assist in defining the appropriate number of aircraft maintenance engineers required. A time tracking system is currently being investigated as part of a "maintenance work order system."*

#### **AIRCRAFT PARTS INVENTORY**

The Ministry maintains inventories of aircraft parts at its eight aircraft maintenance facilities. The replacement value of these inventories is estimated to be approximately \$8 million with annual purchases totalling approximately \$2 million.

To ensure that required parts are in stock or reordered on a timely basis and are adequately safeguarded and accounted for, the Ministry requires an inventory system which, at the minimum, maintains information on the number and costs of individual parts purchased, consumed and remaining in stock. Inventory reports should then be reviewed on

a regular basis to identify excessive or obsolete parts. In addition, periodic counts of stock should be made to verify the accuracy of the inventory reports.

The Ministry has acquired a computerized Aircraft Inventory Maintenance System known as AIMS. However, the effectiveness of its implementation has been limited by the following:

- only parts maintained at two of the Ministry's eight bases have been counted and recorded in AIMS. The values of older parts have not been recorded as they are unknown. In addition, these two inventory counts were undertaken by storage personnel who were not independent of the custodial function;
- parts maintained at the other six bases have not been counted and there is no assurance that they have been recorded in AIMS; and
- there are no plans to count existing inventories on a regular basis.

As a result, the Ministry's controls over its aircraft parts inventory are inadequate as inventory shrinkage or excessive or obsolete parts have little chance of detection.

#### **Recommendation:**

##### **The Ministry should:**

- ensure that all parts and their costs are recorded on the Aircraft Inventory Maintenance System. Where the cost of a part is not available, its current purchase price should be used;
- regularly review its inventory records for excessive or obsolete stock; and
- conduct test counts of all inventories on a regular basis using personnel independent of the stores function to ensure that inventory records accurately reflect parts on hand.

##### **Ministry Response:**

***The Ministry agrees with the recommendation. Efforts to track and better manage inventory are on-going.***

# Northern Ontario Heritage Fund Corporation

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The Northern Ontario Heritage Fund Corporation (NOHFC) was established in June 1988 as an agency of the Ministry of Northern Development and Mines. The purpose of NOHFC is to encourage the growth and diversification of the economy of Northern Ontario by providing financial assistance through a variety of programs. Assistance takes the form of non-repayable contributions (grants), forgivable loans, repayable loans, and loan guarantees.

The main programs support industries such as small business, tourism, natural resources and agriculture. Projects are funded in both the private and public sectors, ranging from small family-run enterprises to large publicly traded multinationals.

The Province is committed to a contribution of \$360 million to be paid to NOHFC in annual instalments of \$30 million over 12 years until the year 2000. An additional \$65 million in funding was provided by Ontario Hydro and the Province specifically for projects in the Elliot Lake area. As of the end of November 1994, NOHFC had supported 1,841 projects with total financial commitments of approximately \$300 million.

A twenty-member Board of Directors, chaired by the Minister of Natural Resources, Northern Development and Mines, is responsible for developing strategic direction and policies for NOHFC and establishing detailed selection criteria for project funding.

Staff with the appropriate expertise from the Northern Ontario Development Corporation (NODC) and the following ministries act as NOHFC's agents in assessing funding applications, recommending projects for approval and monitoring approved projects:

- Culture, Tourism and Recreation (MCTR);
- Natural Resources (MNR);
- Agriculture, Food and Rural Affairs (OMAFRA); and
- Northern Development and Mines (MNDM).

The roles and responsibilities of the agency and ministries involved in delivering the NOHFC programs are described in Memoranda of Understanding between the ministry or agency and NOHFC. This arrangement has allowed NOHFC to maintain a minimal staff complement of seven.

## OBJECTIVES AND SCOPE

The objectives of our audit were to assess whether NOHFC had procedures in place to measure and report on the effectiveness of its programs, and whether key financial and

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management systems and procedures and practices were in place to ensure that the fund was administered in accordance with funding guidelines and policies.

Our audit was conducted at NOHFC's office in Sault Ste. Marie and at selected regional offices of the ministries and agency responsible for delivering NOHFC's programs. We focused on projects that had been approved within the five-year period up to September 1994.

## OVERALL AUDIT OBSERVATIONS

While NOHFC has prepared a five-year planning document, we believe further improvements can be made to ensure that it meets its mandate of maximizing the growth and diversification of the Northern Ontario economy. In this regard, we feel that NOHFC needs to:

- provide clearer direction and better prioritization as to how its resources are to be allocated; and
- improve the measurement of the actual results of funded projects over time, and report periodically on the effectiveness of its funding programs to prioritize and determine methods of funding future projects.

Generally, NOHFC is being administered in accordance with funding guidelines and policies established by the Board. However, we noted several areas for improvement:

- improving the ongoing monitoring of funded projects to ensure compliance with funding requirements;
- attempting to minimize NOHFC's exposure to losses by striving to secure its loans consistent with its role as an economic development agency;
- reviewing and seeking ways to improve on the accountability framework between NOHFC and the ministries and agency acting as agents in the delivery of the funding programs;
- more thorough assessment of project proposals, especially for smaller dollar-value projects.

## DETAILED AUDIT OBSERVATIONS

### CORPORATE DIRECTION

#### LONG-TERM PLANNING

The *Northern Ontario Heritage Fund Act* states that the objectives of NOHFC are to advise and make recommendations on matters relating to the growth and diversification of the economy of Northern Ontario, and to promote and stimulate economic initiatives in Northern Ontario. To achieve these broad and general objectives, it is important for NOHFC to have a focused strategic plan.

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We noted that NOHFC has a five-year planning document called *Strategic Direction* covering fiscal years 1993/94 through 1998/99. This document, which is subject to an annual review, identifies the mandate, operating environment, and the initiatives to be taken to address the challenges faced by NOHFC. However, we believe this planning document could be improved by providing more specific focus. For example:

- establishing criteria and priorities on how funding resources are to be allocated among different types of financial assistance, and by different industrial sectors and geographic areas; and
- establishing targets such as the number of jobs to be created.

Such parameters would also assist NOHFC to better prioritize funding requests. This would ensure that projects providing more benefits receive priority and proportionally more funding than those providing fewer benefits.

### **Recommendation:**

**In order to maximize its contribution to the growth and diversification of Northern Ontario's economy the Corporation's long-term plan should be expanded to establish criteria and priorities on how its resources are to be allocated.**

### **Ministry Response:**

***The Corporation is in transition and it is expected that the government will re-focus the mandate of the NOHFC. The "Strategic Direction" will be reviewed by the government and the Board of Directors with a view as to the best utilization of resources.***

## **EFFECTIVENESS OF PROJECT FUNDING**

The objectives of NOHFC, as stipulated in the *Northern Ontario Heritage Fund Act*, are very broad and general. Therefore, NOHFC's monitoring the effectiveness of the use of funds by recipient organizations is especially critical.

We concluded that improvements are required to measure the effectiveness of NOHFC in meeting its objectives.

While applicants were specifically requested to provide data on jobs to be created, we believe that other types of quantifiable information would also be of benefit (for example, sales revenues and profits increased, export sales increased, import purchases reduced or occupancy rates improved).

We reviewed files for information on actual program results achieved to determine whether this type of information was being collected and compared with the initially specified targets, and to assess the adequacy of such information when it was collected. This test involved a review of project files maintained by consultants in the ministries and agency and a review of corresponding project files maintained at NOHFC. We also took into consideration, more subjective information on the status of funded projects such as that included in written correspondence between consultants and funding recipients, and in documented telephone conversations.

Overall, we found that neither the consultants nor NOHFC were collecting adequate information on the results of funded projects. Generally, there was no co-ordinated or systematic effort by either the consultants or NOHFC to collect such information. While there was some collection of actual job creation information for forgivable loans, these loans account for less than 10% of the total funding NOHFC provides. Summarized periodic reporting on the achievement of results by program type was not prepared by the consultants, nor was such information requested by NOHFC.

In its annual report, NOHFC periodically provides information such as the number of jobs created on approved projects and the related benefits. However, this information is based in part on projections made by applicants in the funding applications reviewed by the agents, rather than on the measuring of actual results of these funded projects.

This lack of information on actual project results makes it difficult to assess whether a program or project is achieving its objectives and whether value for money is being received. The collection of such information over time is important in assessing whether the benefits of funded projects are of a permanent or temporary nature. This type of information is also crucial for NOHFC's strategic planning, as it assists in deciding how to prioritize program funding in the future by directing funds to those programs that result in the maximum economic or social benefits to Northern Ontario.

Recognizing the importance of results monitoring, NOHFC is in the early stages of developing a project tracking system. It is anticipated that this system will track key project information including the terms and conditions of loans and loan guarantees, as well as the achievement of targets.

#### **Recommendation:**

**The Corporation should, as quickly as possible, improve its process for measuring and reporting on the effectiveness of its programs in contributing to the growth and diversification of Northern Ontario. This information should be used to prioritize and determine the most effective future project funding methods.**

#### **Ministry Response:**

***The Corporation agrees with the importance of improving its process for measuring and reporting on the effectiveness of its programs in contributing to the growth and diversification of northern Ontario. The Corporation will continue to work on the implementation of a new project tracking system.***

## **PROJECT ASSESSMENT**

Applicants requesting financial assistance are required to submit specific information to assist NOHFC's agents in assessing the viability of the proposed project.

Typically, NOHFC will request a business plan and historical and pro forma financial statements. The business plan provides details on the proposed project including:

- estimated costs and potential sources of financing;

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- relevant backgrounds of the applicants including prior experience in the industry and the financial history of the company;
  - potential markets; and
  - competitors.

The business plan is used by the agent to prepare a project risk and benefits assessment. This assessment is included in the agent's recommendation to NOHFC on whether to fund or reject a project.

We noted that business plans were on file for each of the funding applications reviewed. However, historical financial statements of existing companies, and pro forma financial statements of new companies were not included in the business plans in many instances. These are necessary for a proper financial assessment of the operations of the company.

Risk and benefit assessments were prepared for most projects reviewed. However, some assessments were not sufficiently detailed. For example:

- specific and measurable project benefits were not identified;
- recent financial information was either not used in the analysis, or was not thoroughly analyzed; and
- security was not properly verified or valued.

Other weaknesses noted in the files included the following:

- Background and credit checks on applicants and companies were not performed. Additionally, personal net worth statements were usually not verified.
- There was a lack of evidence of site inspections being performed. The types of evidence expected to be on file include site inspection write-ups and pictures of the site or premises and machinery owned.

In general, we noted fewer deficiencies in the larger, costlier projects than in the smaller projects, such as those administered by the Ministry of Culture, Tourism and Recreation.

Ministries such as Environment and Energy, Natural Resources, Health, Housing, and Community and Social Services are expected to be consulted on proposed projects within their areas of expertise. We found that the relevant ministries were generally consulted as necessary.

### **Recommendation:**

The Corporation should ensure that all information necessary for proper project assessment is obtained and evaluated prior to project approval.

### **Ministry Response:**

*The Corporation relies on the delivery agents for project assessment and recommendations. The Corporation will remind evaluators to be as thorough as practical in preparing their evaluations.*

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## ONGOING MONITORING OF PROJECTS

Except for those projects directly administered by NOHFC, responsibility for the ongoing monitoring of the funded projects has been delegated to the consultants at the delivery agency or ministry.

It is essential that funded projects be monitored on an ongoing basis to ensure compliance with funding requirements and to prevent or reduce the likelihood of unforeseen financial and other problems. Proper monitoring includes:

- obtaining proof of expenditures prior to payment, and reviewing to ensure that funds were appropriately spent for the purposes intended;
- reviewing progress through site inspections, telephone calls, or correspondence; and
- reviewing financial statements and other reports.

Based on the projects in our sample, we found expenditures were properly supported by invoices or other documents.

However, we believe improvements can be made in the monitoring of many projects subsequent to the disbursement of funds to applicants. We noted examples where:

- periodic ongoing financial statements were either not received at all, or were not received on a timely basis from funding recipients;
- internally prepared financial statements were accepted although, based on the amount of financial assistance provided, externally audited financial statements would have been more appropriate for the project. Audited financial statements provide a higher level of assurance as to the accuracy of the information they contain;
- files lacked adequate evidence that site inspections had been performed subsequent to disbursement of funds; and
- files lacked information on ongoing activities or results of operations of the funding recipient, and files lacked documentation on telephone contact with funding recipients.

We noted that larger, higher dollar-value projects generally received better attention in terms of ongoing monitoring than smaller projects.

Because of the inadequacies noted above, anyone unfamiliar with the project files would not be able to accurately assess the status of the funded projects. These inadequacies could result in significant problems should a consultant who is familiar with, and responsible for, a file depart from the organization.

### Recommendations:

**The Corporation and its agents should improve their ongoing monitoring of projects. Specifically, financial statements should be obtained from funding recipients on an ongoing and timely basis. Guidelines detailing when audited financial statements must be obtained should be formalized. Site inspections and other methods of monitoring should be performed, with the key items documented in a monitoring report.**

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**Ministry Response:**

*We concur that improved monitoring of projects is of benefit. As noted in the "Effectiveness of Project Funding" audit category, the Corporation will continue its effort to implement a new project tracking system as soon as possible. Delivery agents will be requested to ensure appropriate site inspections, etc. are documented in their files. The monitoring activity will also be clarified in future MOUs.*

## **ADMINISTRATIVE FRAMEWORK**

### **AGENT RELATIONSHIPS**

As NOHFC's agents, Northern Ontario Development Corporation (NODC) and the Ministries of Northern Development and Mines; Culture, Tourism and Recreation; Agriculture, Food and Rural Affairs; and Natural Resources have been delegated the responsibilities of evaluating project proposals and ongoing monitoring of approved projects.

The roles and responsibilities of NODC and ministries involved in delivering NOHFC's programs are described in Memoranda of Understanding between each ministry or agency and NOHFC.

The ultimate and overall responsibility for funds spent on projects still rest with NOHFC, the manager for the Fund. The separation of responsibilities established in the Memoranda of Understanding is desirable from the viewpoint that the agents are more knowledgeable about their own industries than NOHFC, and NOHFC does not need to duplicate an existing bureaucracy to deliver the program on its own.

Under the current structure, there is very little that NOHFC can do should it not be satisfied with the performance of its agents. For example, NOHFC has no authority to evaluate the performance of its agents, nor can it financially motivate its agents as their services are provided free of charge to NOHFC.

We believe the present Memoranda of Understanding do not adequately address the intended specific responsibilities of NOHFC's agents—for example, project assessment, monitoring requirements and evaluation of project effectiveness. These concerns have also been reported in the past by the Ministry of Northern Development and Mines' internal audit department.

### **Recommendations:**

The Corporation should review the Memoranda of Understanding between it and its agents. When the memoranda are renewed, the Corporation should ensure that they address the intended specific responsibilities and performance of its agents.

### **Ministry Response:**

*We agree that the present MOUs can be improved by redeveloping them along process lines. We will do so upon renewal.*

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## MINISTRY OF THE SOLICITOR GENERAL AND CORRECTIONAL SERVICES

# Community Services Activity

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The Correctional Services Division of the Ministry of the Solicitor General and Correctional Services supervises all adult offenders 18 years of age and over who are on probation or parole, in custody on remand, or serving a sentence of less than two years. In addition, the Ministry also supervises young offenders who are 16 and 17 years of age.

The Community Services Activity is the responsibility of the Ministry's Correctional Services Division. The Activity provides supervision for a daily average of approximately 63,000 offenders who are serving their sentences in the community under a probation order or parole certificate. The stated objectives of the Activity are to ensure the protection of society and to motivate offenders towards positive personal change.

The Ministry has over 600 probation and parole officers in 40 area offices and 94 sub-offices throughout the province. The Ministry also contracts with outside agencies for community programs such as community residences and treatment and other rehabilitation programs.

For fiscal 1994/95, expenditures for the Community Services Activity totalled approximately \$114 million.

## OBJECTIVES AND SCOPE

The objectives of our audit were to assess whether the Ministry's Community Services Activity has adequate procedures in place to:

- ensure that offenders serving sentences in the community adhere to the conditions of probation or parole;
- manage financial and human resources in a cost-effective manner; and
- measure and report on the effectiveness of its community programs.

Our audit included visits to two of four regional offices and five of forty area offices, interviews with Ministry officials, examinations of contracts with community services agencies and reviews of offender files.

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# OVERALL AUDIT OBSERVATIONS

The Ministry needs to take more timely action when probationers do not comply with probation orders. Additionally, it needs to work more closely with its partners in the justice system to develop solutions for dealing with probationers who repeatedly violate their reporting conditions and for those who do not pay the required restitution to victims of crimes.

Also, the Ministry needs to establish workload standards for the supervision of offenders so that staff can be deployed in a cost-effective manner.

At the time of our audit, the Ministry had not yet measured and reported on the effectiveness of its community programs in ensuring protection of society and motivating offenders towards positive personal change. However, the Ministry had begun a pilot project to develop a method of evaluating program effectiveness.

In the case of offenders on parole, we concluded that the Ministry's supervision of parolees was generally satisfactory.

## DETAILED OBSERVATIONS

### COMPLIANCE WITH PAROLE CONDITIONS

The Ontario Board of Parole is responsible for determining whether offenders may be released from correctional institutions and serve the remainder of their sentences under supervision in the community. All offenders are eligible to apply for parole after serving one third of their sentences. Less than 2,000 offenders under community supervision are parolees.

All parole orders have standard conditions. Parolees are required to remain within the jurisdiction of the Board; to obtain consent of the Board or parole officer before changing residence or employment; to keep the peace; to refrain from associating with any person engaged in criminal activity; and to report as required to a parole officer. In addition, the Board may suggest other conditions that may be helpful to an offender's development and reintegration into the community.

Based on our review of parole files, we concluded that the Ministry's supervision of parolees was generally satisfactory.

### COMPLIANCE WITH PROBATION CONDITIONS

Probation orders are given by the court either subsequent to imprisonment or as a separate disposition. The maximum duration for a probation order is three years, and the provincial average is about 15 months. The most common conditions imposed on probationers are requirements to: report to a probation officer; perform community work; pay restitu-

tion; and attend treatment or counselling programs. About 61,000 offenders are under the supervision of probation officers.

If an offender does not comply with one or more conditions of the probation, the probation officer attempts to contact the offender by telephone, mail or personal visit. Once these procedures have been exhausted, the officer may lay a charge when the offender is considered to have failed to comply on purpose. The charge must be laid within six months of the alleged failure or the authority to proceed will expire. The court determines if the probationer is guilty of willfully failing to comply with a probation order and may sentence the probationer to additional probation, a period of custody or a fine.

In our review of probation files, we noted that a significant number of offenders did not comply with the conditions of their probation:

Condition	Report to Officer	Perform Community Service	Pay Restitution	Attend Treatment/Counselling Programs
Cases with condition	177	75	58	107
Non-compliance with condition	49	24	22	49
Conditions beyond offender's control	1	4	0	6
Cases requiring further action:	48	20	22	43
• appropriate action taken	17	16	13	3
• Inappropriate action taken	31	4	9	40

Conditions beyond the control of offenders included those where offenders were sick or incarcerated or were unable to gain admission to treatment programs. We followed up on cases requiring further action with the Ministry to determine if they had received appropriate action. Appropriate action is indicated either by charges being laid or by documentation showing that reasonable discretion has been applied in the case.

In cases where the action was inappropriate, we noted the following:

- probation officers did not contact the offenders as required. Often, the final date for laying a charge was overlooked and, as a result, the six-month time limit to proceed had expired; and
- officers did not document the rationale for their decisions in cases where they decided against laying charges for non-compliance.

### **Recommendation:**

#### **The Ministry should ensure:**

- that non-compliance cases are followed up in a timely manner; and
- that Ministry actions and decisions in non-compliance cases are properly documented.

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**Ministry Response:**

*On June 9, 1995, the Ministry re-issued direction to all probation/parole officers and area managers that the policy on non-compliance is to be fully observed. It also reiterated the importance of a timely response and thorough documentation regarding all actions taken and decisions made. Area managers in conjunction with the regional office will ensure compliance through the case audit process.*

*In all cases where non-compliance occurs and enforcement action is not taken, the rationale for not doing so is to be thoroughly documented.*

## **REPORTING CONDITIONS**

The court usually imposes a condition requiring probationers to report to probation officers. This gives the officers the authority to supervise the offenders in the community. To determine the frequency of reporting for supervision purposes, the probation officers assess and classify offenders as being at minimum, medium or maximum risk of reoffending. An offender's failure to report may indicate that the offender is experiencing problems or has come into conflict with the law again. It is the probation officer's responsibility to follow up with offenders promptly to minimize the risk of offenders committing other crimes.

For the purpose of our review, we considered non-compliance with a reporting condition to have occurred only after offenders missed at least three appointments without contacting their officers. We noted that by this criterion about one third of the probationers in our sample had not complied with their reporting requirements. Of the 31 cases with inappropriate action, we noted that seven had no documentation to indicate that risk assessments had been performed. Although 13 of the remaining 24 cases were maximum risk offenders, no follow-up action was taken.

According to probation officers, many offenders deliberately test the limits of the probation system by reporting sporadically. The officers are frustrated because, unlike parole conditions, probation conditions can only be enforced by returning the case to court. They are reluctant to lay charges because the process is time-consuming, and they believe these charges are often not given sufficient priority by the courts. In addition, it is usually difficult to prove intentional violation of reporting conditions since many offenders eventually do report.

### **Recommendation:**

#### **The Ministry should:**

- **develop specific procedures for timely action when maximum risk offenders fail to report as required; and**
- **work with its partners in the justice system, including the courts and crown attorneys, to develop solutions for dealing with probationers who repeatedly violate their reporting conditions.**

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### **Ministry Response:**

*The Ministry concurs that timely and appropriate action must be taken in all instances when maximum risk offenders fail to report. Current case supervision standards provide clear direction as to the minimum reporting requirements for all offenders on community supervision which varies according to classification level, (higher risk cases are required to report more often and compliance with all other assigned conditions is more strictly monitored). When reporting is not complied with, a timely response is required. Therefore the Ministry will review its policies and procedures to ensure that appropriate responses are clearly established and will follow up with area managers to ensure responsibilities are discharged.*

*As an interim response, the need to enforce reporting conditions was reiterated in the direction provided to all probation parole officers in June 1995. This will be emphasized during probation/parole officer basic and refresher training modules.*

*Judges and Crown attorneys play the key role in establishing the priority for the prosecution of non-compliance to probation conditions in the courts. The Ministry has and will continue to work locally and at the provincial level with the Ministry of the Attorney General to address compliance and enforcement.*

## **COMMUNITY SERVICE ORDERS**

To encourage offenders to develop responsible attitudes and employment skills, judges often include a community service order as a condition of a probation order. A community service order requires the offender to perform a specified number of hours of volunteer work in the community under the supervision of a probation officer or a community agency. In addition, community service orders also provide community agencies with needed volunteer assistance and opportunities to involve the community in the correctional process.

Our review of offender files with community service orders indicated that the majority of offenders had complied with court orders for community service. However, in four cases of non-compliance, because officers had allowed the six-month time limit to pass, they could not proceed with any enforcement actions. (See our recommendation on page 249 regarding timely follow-up.)

## **RESTITUTION**

A judge may impose restitution as a method of holding offenders monetarily responsible for damage to property or loss of money by stipulating an amount to be paid to the victim of the offender's crime. In addition to compensating victims of crime, restitution provides the courts with an alternative to incarceration for non-violent offenders.

Probation officers monitor offenders to ensure that payments are made. Our sample showed that about two thirds of offenders paid as ordered. In the remaining cases, enforcement actions were often not taken because the offenders were deemed not to have the ability to pay their restitution.

If restitution payments are not made because an offender lacks the means to do so, the probation officers may apply to the court for a variation of the order such as reducing the

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total amount to be paid or extending the due date for payments. Alternatively, officers may lay charges against offenders who purposely fail to comply with restitution orders.

That one third of the offenders did not comply with their restitution orders may indicate that the court, at the time of sentencing, did not have sufficient information to assess the offenders' abilities to pay. Prior to sentencing, the court may require probation officers to submit a pre-sentence report assessing an offender's situation, including the ability to pay restitution. We noted in a number of cases of non-compliance that a pre-sentence report had not been requested by the court.

Restitution orders are intended to provide victims with compensation; non-payment situations undermine the intention of the court and may make victims feel victimized again.

#### **Recommendation:**

##### **The Ministry should:**

- seek direction from the court when offenders do not meet restitution order requirements; and
- work with the courts to ensure that offenders' abilities to pay are assessed before restitution orders are imposed.

##### **Ministry Response:**

*Sentencing practices routinely place an emphasis upon the offender compensating the victim. When an individual receives a probation term to pay restitution, the Ministry has the mandate to direct the probationer to pay the required amount of restitution. When a probationer has the ability to pay but refuses, a criminal charge of willful non-compliance must be sworn unless there are prevailing reasons not to do so. If this is the case, the rationale, by policy, must be thoroughly documented.*

*The failure to pay restitution, however, and as noted in the report, often stems from an individual's inability to pay. When this is clearly the case, enforcement action can not be taken due to the fact that the non-compliance is not intentional.*

*The Ministry fully concurs that, when offenders do not meet restitution order requirements, direction or a variation to the order is to be sought from the court and that all actions in this regard are to be well documented. The Ministry will review all policies, procedures and practices related to restitution in conjunction with the Ministry of the Attorney General.*

*New federal legislation, Bill C-41, which amends the Criminal Code, will place more emphasis on assessing the ability of the offender to comply with a restitution condition. We will work with the Ministry of the Attorney General to ensure that these provisions are implemented effectively.*

*As an interim step, the requirement to enforce probation conditions including restitution terms was stressed in the direction to probation/parole officers on June 9, 1995.*

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## TREATMENT

The court may order treatment conditions to give offenders an opportunity to be rehabilitated. Treatment conditions vary significantly. Some are specific requirements for the offenders to seek professional help for their alcohol, drug, psychiatric or emotional problems. Others are more general and give the probation officers discretion to recommend appropriate counselling, after a thorough evaluation of the offender's needs.

In our review of the probation files with treatment conditions, we noted that in almost half of the cases there was no indication that the probationers had complied with the conditions. In many of the files, probation officers either did not address the treatment condition at all or did not document the rationale for their decisions not to enforce the condition.

Probation officers indicated that offenders are often unwilling to participate in treatment programs. Also, in some cases, because of unco-operative behaviour, offenders are deemed unsuitable for treatment by the service providers and removed from programs they have entered. As a result, it can be difficult to compel them to comply with their treatment conditions. However, some offenders are sentenced to probation instead of incarceration specifically to ensure they receive proper treatment in the community. If offenders lack motivation, officers should encourage them through counselling to comply. If offenders are still unwilling to comply, the officers should return those cases to the court for more appropriate sentencing.

According to probation officers, another reason offenders fail to participate in the required programs is that the programs are often filled and cannot offer them places. However, two of the five area offices we visited kept a record of waiting lists for community programs. In addition, the Ministry did not have overall information to determine the type, demand for and availability of programs in each region. Without such information the Ministry cannot ensure that appropriate levels of services are available to meet treatment needs of offenders.

### Recommendations:

**The Ministry should take appropriate action when probationers fail to comply with treatment conditions.**

**The Ministry should keep up-to-date information on the availability of treatment programs so that appropriate service levels for community programs can be maintained.**

### Ministry Response:

*When probationers receive orders for treatment from the court, probation/parole officers have a responsibility to make the necessary referrals. However, as indicated in the audit report, certain situations hinder the ability to effectively and successfully administer treatment conditions. These circumstances include:*

- *situations where an offender attends and participates in a program but is dismissed from further participation because the offender's participation is not deemed appropriate by the service provider;*

- *situations where an offender requires a specialized intervention but where no corresponding service or intervention exists in the area; and*
- *situations where health care professionals, regulated by the Consent to Treatment Act and the Regulated Health Professionals Act, choose not to treat an offender out of respect for their statutory right to refuse treatment.*

*Despite these difficulties, many referrals and successful interventions routinely occur.*

*The Ministry will, in conjunction with the Ministry of the Attorney General, objectively review all policies and procedures related to the issue of treatment ordered by the courts.*

*In the interim, enforcement of treatment conditions was stressed in the compliance memorandum of June 1995.*

## MONITORING PERFORMANCE

In order to assist probation and parole officers in supervising offenders, the Ministry has developed detailed policies and procedures. These policies and procedures establish standards for assessing offenders' risks and needs, the appropriate frequency of reporting, and procedures for documentation and enforcement.

The Ministry's quality assurance policy requires that its area managers monitor the quality of case files and ensure that standards are being adhered to by evaluating at least 10% of each officer's caseload annually. According to the Ministry, the purposes of this exercise are to ensure appropriate accountability and quality control and to provide staff with feedback on their performance.

Of the five area offices we visited, three had not completed the minimum number of required reviews:

Area Offices	Office A	Office B	Office C	Office D	Office E
Average Caseload	952	2909	1650	1124	1232
Minimum Review Requirement	95	291	165	112	123
Actual Reviewed	0	91	100	117	149
Below Minimum Requirement	95	200	65	N/A	N/A
Review as a Percentage of Requirement	0%	31%	61%	100%	100%

The reasons provided by area managers for not meeting the minimum review requirement were time constraints and uncertainty about the usefulness of such reviews. Where the reviews were performed, we noted wide discrepancies in the quality of the work. For instance, some reviews consisted of a single page checklist and were of limited use in improving staff supervision of offenders. In contrast, we noted that other reviews in-

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cluded detailed observations and staff feedback. In some cases the level of offender supervision had been revised and improved as a result of these reviews.

**Recommendation:**

**The Ministry should:**

- ensure that quality assurance case-file reviews are performed in accordance with its policy; and
- adopt a comprehensive and standardized method of conducting case-file reviews that is useful for improving the supervision of offenders.

**Ministry Response:**

*The Ministry recognized in late 1994 that the case file review process needs to be strengthened. In April 1995 work was started to develop a standardized probation case audit instrument and the Ministry will proceed to complete this project by November 1995. A comprehensive training module for area managers will follow.*

*The design will incorporate quality assurance as an integral component.*

## OFFICER WORKLOADS

The Ministry's statistics on recent trends in community sentencing from 1989 to 1994 show that while the offender population has grown by 37%, from 46,000 to 63,000, the number of parole and probation officers has increased by 5%, from 605 to 635, during the same period.

The Ministry's statistics on caseloads indicate large discrepancies between offices. For example, we noted that the average caseload per officer at one area office was 90 while the average caseload at another nearby office was 175. However, we could not determine if staffing levels were appropriate because the Ministry had not established a standard number of cases that an officer could reasonably manage, as offenders' needs and risks vary widely.

Caseload is not the only indicator of probation and parole officers' work. In addition to supervision and enforcement, officers also provide counselling and referral services to offenders. They may also be required to prepare court reports, attend court for trials, confirm addresses and employment, and liaise with community service agencies.

Furthermore, according to the Ministry, the current population of offenders is more complex; they have more mental health and behavioural problems and longer criminal histories. All of these factors have complicated the workload for probation and parole officers. However, the Ministry has no workload standards to assess whether staff can effectively carry out their responsibilities.

The Ministry recognizes that the issue of workload is a concern for probation and parole officers and area office management. In 1989, the Ministry completed a study which outlined recommendations on methods to measure workload. However, the recommendations were not implemented.

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In 1993, the Ministry created a new committee to identify the various components of a probation officer's workload and suggest strategies for dealing with them. The committee drafted a workload measurement tool which included measurements of such things as the time required to write reports and to supervise offenders. At the completion of our audit, the Ministry had not completed its evaluation of this tool.

In the absence of workload standards, the Ministry cannot determine the workload that will allow officers to supervise offenders effectively and efficiently. Also, with no objective basis for allocating staff to area offices, the Ministry cannot adequately address discrepancies in workload distribution.

#### **Recommendation:**

**The Ministry should establish workload standards and use them to analyze staffing so that staff can be deployed in a more cost-effective manner.**

#### **Ministry Response:**

*In April 1994, a workload index was introduced in the Eastern Region on a trial basis. The purpose of this workload index trial is to determine whether or not the instrument is effective in providing a bench mark for measuring the workload between and within area offices. It is designed to measure caseload and workloads and to assist in the analysis of staff complement. A report on the status of this workload index trial will be completed in mid-1995.*

*A probation/parole workload index will be generically applied in this Ministry by February 1996.*

## **COMMUNITY RESIDENTIAL AND NON-RESIDENTIAL PROGRAMS**

During the 1994/95 fiscal year, the Ministry spent approximately \$56 million on various types of community programs for offenders. Over 80% of this amount was allocated for residential programs and the remaining 20% was spent on non-residential rehabilitation and developmental programs.

In the community residential program, the Ministry has contracts with community service agencies to provide residential facilities for adult and young offenders. Adult offenders may be ordered to reside in the facilities under a temporary absence pass from a correctional centre or as a condition of their probation or parole. Young offenders may be sent to community residential facilities directly from court.

The non-residential programs include substance abuse programs, psychological therapy and other treatment services. These programs may be prescribed on an individual basis by the court or the Board of Parole. If the condition of the order is not specific, the probation and parole officers assess the treatment and counselling needs of the offender, then make the appropriate referral.

Although the Ministry is not directly involved in the day-to-day operations of the residential and non-residential facilities, its contracts with the agencies require them to comply with Ministry standards and guidelines for supervision, security and services. The regional offices and area managers are required to conduct contract audits on each agency every year to ensure compliance with the terms of the contract. We noted that these audits were generally done on a timely basis. Any significant concerns were followed up by the Ministry.

## PROGRAM EFFECTIVENESS

The Ministry's community programs are intended for the protection of society and rehabilitation and treatment of offenders. During our audit we noted that the Ministry had not evaluated the effectiveness of these programs; hence, it did not know if offenders were receiving the intended benefits and if society was being adequately protected.

We made a similar observation in our previous audit in 1989. In response, the Ministry had indicated at that time that a committee had been established to recommend procedures for program evaluation. Subsequently, the Ministry designed a detailed program evaluation tool to assess the effectiveness of all residential and non-residential community programs. The tool assesses:

- whether programs are still relevant in meeting the Ministry's objectives of protecting society and addressing the needs of offenders;
- what effects, both intended and unintended, have resulted from the programs;
- to what extent the programs are achieving stated objectives; and
- whether there are more cost-effective ways of achieving the same objectives.

The Ministry introduced the evaluation tool on a pilot project basis. Individual area managers were required to forward the evaluations of at least three programs to head office by January 1995. At the completion of our field work in March 1995, evaluations had been submitted but not formally analyzed.

### **Recommendation:**

**The Ministry should conduct timely evaluations to measure the effectiveness of all Community Services programs.**

### **Ministry Response:**

*On September 19, 1994, the Correctional Services Division initiated a program evaluation strategy for both adult and young offender institutions, and probation and parole offices.*

### **The goals of this evaluation strategy are:**

- *to ensure that offender programs are consistent with and provide a meaningful response to the Ministry's legislated mandate and policy directions;*
- *to promote ongoing program refinement and enhancement, resulting in improved program quality and service delivery;*

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- *to provide constructive input into management decision-making, strategic and operational planning and resource allocation; and*
  - *to improve Ministry accountability by demonstrating efficiency and value for money in the achievement of program objectives.*

*Based on the analysis of the evaluations received, a refined instrument will be introduced system-wide in the fall of 1995.*

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## MINISTRY OF THE SOLICITOR GENERAL AND CORRECTIONAL SERVICES

# Ontario Board of Parole

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In Canada, offenders who have been sentenced to imprisonment for two years or more fall under federal jurisdiction. Accordingly, parole decisions for these offenders are made by the National Parole Board. Ontario, Quebec and British Columbia have their own provincial boards of parole to decide on parole for offenders sentenced to less than two years of imprisonment. All other provinces have parole decisions for their inmates made by the National Parole Board.

The Ontario Board of Parole derives its authority from the federal *Corrections and Conditional Release Act* and the provincial *Ministry of Correctional Services Act*. Offenders are eligible for parole upon serving one third of their sentences. Offenders who are granted parole serve the remainder of their sentences in the community under the supervision of a parole officer. Without parole, offenders are normally released after serving two thirds of their sentences.

A parole board's most important function is to decide whether inmates should be granted or denied parole. All parole decisions are governed by legislated criteria which require the determination of whether:

- an offender presents an undue risk to society of re-offending before sentence expiration; and
- release contributes to the protection of society by facilitating reintegration of the offender into the community as a law-abiding citizen.

At the time of our audit, the Ontario Board of Parole had 17 full-time members, including the Chair and Vice-Chairs, and 85 part-time members. Most full-time members have a correctional services/criminal justice background; part-time members, who may have a similar background, are lay people representing their local communities. A quorum of three members is required to conduct a parole hearing; decisions are made by majority vote.

Appointments of members are made on a regional basis, with vacancies usually advertised in local newspapers. Applicants are screened by the Public Appointments Unit of the Ministry of the Solicitor General and Correctional Services. Qualified applicants are short-listed and interviewed by representatives from the Board and the Minister's office. Successful candidates are recommended to the Minister and subsequently to the Cabinet for approval. Board members are then appointed for a one-, two- or three-year term.

For the 1994/95 fiscal year, the Board of Parole's total expenditures amounted to approximately \$4 million. The Board's latest report shows that there were approximately 6,500 parole hearings with parole granted or parole denied decisions, of which 59% resulted in parole being granted.

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## OBJECTIVE AND SCOPE

Our audit objective was to assess whether the Ontario Board of Parole had adequate procedures in place to make appropriate parole decisions and to measure and report on its effectiveness in protecting public safety and assisting the reintegration of offenders into the community.

Our audit was conducted at the Board's head office and three of its five regional offices. It included a review of parole files and other internal board documents, discussion with Board and Ministry officials and observation of parole hearings. We also followed up on the observations made in our previous audit of the Board in 1989.

## OVERALL AUDIT OBSERVATIONS

The Board of Parole needs to improve the quality of its parole decision-making process by obtaining sufficient information, assessing risk more objectively, providing better training for Board members and taking corrective action where necessary. The Board also needs to develop measures to assess and report on its effectiveness in protecting public safety and assisting the re-integration of offenders into the community.

## DETAILED AUDIT OBSERVATIONS

### DECISIONS OF THE BOARD

Our review of the Board's decision-making process focused on whether the Board had adequate procedures in place to:

- obtain sufficient information for its decisions;
- objectively assess the risk of offenders re-offending; and
- document the rationale for its decisions.

### SUFFICIENT INFORMATION

One of the guiding principles stated in the federal *Corrections and Conditional Release Act* requires that "parole boards take into consideration all available information that is relevant to a case . . . ." The following is considered relevant by the Board: information from the offenders' institutional files, parole release plans, parole officers' investigations and assessments of the release plans, and past criminal charges.

This information does not include detailed descriptions of the offences or detailed personal profiles of the offenders. Prior to 1994, Board members could acquire, on a discretionary basis, the following additional information for offences involving violence:

- a report on the nature of the offence(s) (such as a police report, crown synopsis, judge's reasons for sentencing or equivalent); and
- a psychiatric or other clinical assessment on the emotional and mental health of the offender.

In 1994, the Board implemented a policy requiring this additional information for certain serious offences, such as assault causing bodily harm. For each case involving any of these offences, which are listed in the Board's policy manual, the Board made it mandatory that the above information be received and reviewed before parole can be granted. In our review of parole files, we found that police occurrence reports and clinical assessments were obtained in all cases which were classified as serious offences according to Board policy.

However, as the Board's policy manual indicates, the list of serious offences does not include all offences involving violence or weapons. For offences not listed, Board members may rely on the parole candidates to discuss the nature and circumstances of their offences. This reliance could result in offenders minimizing the violent nature of their crimes and lead to inappropriate decisions by the Board.

Additionally, we observed that in over 40% of the files we reviewed, the Ministry's investigating parole officers did not include assessments of the suitability of the release plans or recommend conditions to manage risk in their pre-parole reports to the Board.

#### **Recommendation:**

**The Ontario Board of Parole should ensure that it receives all the information necessary to arrive at appropriate parole decisions, including, where appropriate, police occurrence reports, psychiatric or other clinical assessments, and judges' rationales for sentencing in all cases involving offenders with violent backgrounds.**

#### **Board Response:**

*The Board strongly agrees that all information relevant to an offender's parole release should be made available for the Board in order to adequately assess the offender's risk to society. The Board already obtains considerable offender-related information such as background, criminal history, parole plan and, in serious cases, offence details and clinical information. In addition, the Board and Ministry will enhance the amount and quality of information used in offender-related decisions to better identify offender risk through the following measures:*

- *the Ministry has made arrangements with the Ministry of the Attorney General to have judges' reasons for sentencing sent for Ministry and Board consideration in classification, program and conditional release decision-making for all serious (that is, Level 1) offenders serving over six months in prison. A formal agreement confirming the process is currently being ratified by provincial court judges;*
- *the police now automatically share offence and victim information in cases where the offender is sentenced to over six months in custody for a serious, violent offence;*
- *new standards for professional assessment (clinical) reports have been implemented to ensure that the Board consistently received quality information on serious, violent offenders including an assessment of the offender's risk for reoffending, strategies employed in the institution to reduce that risk and a recommendation for additional treatment or programming which might facilitate the*

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*offender's successful reintegration into the community consistent with the identified program's needs;*

- the Board is currently reviewing its list of serious, violent offences which initiate the process whereby additional information, such as police occurrence reports and professional (clinical) assessments, is obtained for Board review. This review will include an examination of the National Parole Board's list of serious offences (that is, Schedule I offences). It will be conducted in conjunction with the Ministry's Correctional Services Division and completed by the fall of 1995; and*
- regarding the observation concerning missing assessments and recommendations in pre-parole reports, the Board will ask the Ministry to remind its investigating probation and parole officers to comment on the suitability of the release plan for the offender and to include recommended conditions to manage the offender's risk to the community if parole is granted in all pre-parole reports.*

## **RISK ASSESSMENT**

According to the *Corrections and Conditional Release Act*, protection of society is the paramount consideration in deciding whether or not to grant parole. Accordingly, all parole decisions are required to determine whether an offender would present an undue risk to society by re-offending if granted parole.

In our examination of parole files, we noted that a "Parole Consideration Form" was used by Board members to summarize information on offenders's files and the pros and cons relating to their requests for parole. However, Board members were not provided with any risk assessment tools to assess and quantify the levels of risk being taken in their decisions. The use of a risk assessment tool could lend support and credibility to Parole Board decisions.

We noted that since 1982 all Ontario parole officers have been required to use an objective risk assessment tool after parole has been granted. This tool is a survey that takes into account and numerically ranks a variety of factors pertinent to the offender. Survey results assist correctional professionals in determining appropriate levels of supervision for and identifying the treatment needs of offenders. We also noted that Correctional Services of Canada has additional assessment tools for evaluating the re-offending risks of violent offenders, sex offenders and mentally disordered offenders. While these tools assist other professionals to objectively assess risk, they have not been adopted by members of the Ontario Board.

Although assessment tools cannot replace the judgment of Parole Board members, they can provide an objective means to support their judgments and to demonstrate accountability.

### **Recommendation:**

**The Ontario Board of Parole should institute the use of objective risk assessment tools to help members assess and support their judgments on the risks of releasing offenders.**

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**Board Response:**

*The Board agrees with the need for an objective assessment of an offender's threat to community safety. The Ministry and Board currently employ a number of strategies to assess this risk, such as the offender classification process, community assessments and parole factor assessments. Both organizations are also involved in the development and testing of a new offender classification process. This process uses an empirically-based, quantitative risk assessment tool to better assess offender needs and risk. The information generated by the Level of Service Inventory—Ontario Revision will be considered in conjunction with other information in decisions made throughout the offender's sentence concerning security requirements, placement, program and treatment needs, conditional release and supervision. The Board will use this information to augment its current practices for assessing offender risk and suitability for community reintegration on parole.*

*Testing of the new process and staff training on its application will begin in July 1995. The Board will use the information produced by the new risk assessment process when it is fully implemented in 1996. In the interim and at its urging, the Board is now receiving on a more frequent basis quantitative information generated by the Ministry's current Level of Supervision Inventory.*

## **DOCUMENTING PAROLE DECISIONS**

Police and Ministry correctional staff (including institutional staff and investigating parole officers) often make recommendations to the Board of Parole as to whether certain offenders should or should not be paroled. We observed that in most cases where the recommendations were in support of parole, the Board's decisions were consistent with the recommendations.

However, in cases where the parole granted was opposed by Ministry staff or police, there was insufficient documentation on file to show how this opposition had been dealt with. Sometimes it was merely listed as a "con" item on the "pro and con" column of the Parole Consideration Forms. At other times, it was not mentioned at all.

In our previous audit of the Board in 1989, we made a similar observation. In response, the Board introduced the audiotaping of hearings. However, we noted the Board did not tape the case discussions or the decision-making portions of its hearings.

**Recommendation:**

**The Ontario Board of Parole should document in its parole decisions how the concerns of correctional staff and police have been addressed.**

**Board Response:**

*The professional opinions and recommendations of police and corrections staff concerning an offender's suitability for parole are highly regarded by the Board in parole decision-making. In order for the Board to fully understand an opinion or recommendation and adequately respond to it, it is imperative that the concerns of*

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***the person making the recommendation and the rationale for that recommendation be clearly stated to the Board.***

***The Board plans to discuss the issue and Board concerns about pre-parole recommendations with senior personnel in both the Ministry's Correctional Services Division and police organizations.***

***The Board will introduce additional procedures to ensure that probation and parole recommendations are documented, considered and addressed by members and that information on the quality of the reports received by the Board, recommendations and supporting rationale is shared with the Ministry. This will be undertaken in the current 1995/96 fiscal year.***

***The Chair has met with the Assistant Deputy Minister, Policing Services, to initiate discussions with Chiefs of Police to review changes to policies and procedures relations to parole in Ontario. The Board will also introduce new procedures to ensure that police recommendations are documented, considered and addressed by the Board. This will be undertaken in the current 1995/96 fiscal year as well.***

## **MONITORING AND TRAINING OF BOARD MEMBERS**

All Board members receive basic training courses for nine days. These courses are designed to provide them with an understanding of the Board's mandate, the Ontario criminal justice system, the role and responsibilities of members, the mechanics of conducting a hearing and an overview of the parole criteria and decision-making factors related to risks of re-offending. New members also observe parole hearings before being involved directly in the process.

In 1994, the Board initiated a process for internal review of parole files and the corresponding audio tapes of hearings to monitor the quality of parole decision-making and to determine if there were any training or policy issues which required attention. In about half of the cases, the internal review found deficiencies in one or more of the following areas:

- interviewing skills;
- assessment of the adequacy of information; and
- setting of parole conditions.

In our review parole files, we also observed deficiencies in the adequacy of information obtained. In some cases where probation orders followed a prison sentence, we noted inconsistencies in parole conditions compared to the probation conditions set by the courts.

For those cases with identified deficiencies, the Board followed up primarily by discussing the specific deficiencies with the individual members involved.

While this review uncovered areas which required improvement, we noted that it was restricted to cases where parolees had committed serious new offences and not a representative sample of all files. It was not designed to systematically identify the training needs of all members.

In addition, reviewing a representative sample of parolee files would help identify cases requiring further action. For example, if the review process discovers serious weaknesses

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in the work of particular Board members, the Board could follow up on other parole decisions made by those members. If necessary, appropriate action could then be taken.

#### **Recommendation:**

**To improve the quality of members' decision-making, the Ontario Board of Parole should systematically monitor the parole decision-making process and take corrective action, including additional training, where necessary.**

#### **Board Response:**

*The Board agrees there is a need to better monitor member performance and take corrective action where problems or deficiencies are identified. The Board and Ministry have jointly designed and will be implementing a formal and ongoing process for reviewing randomly-selected parole cases, in respect of case preparation, decision-making processes and supervision, to identify systemic issues in the parole process. The reviews will examine the full range of parole-related cases, such as where parole has been granted, denied or waived, and are expected to begin in August of 1995. The review results will be used to identify areas requiring training, policy or operational attention.*

*The Board and Ministry already conduct internal reviews in cases where serious reoffending by a parolee has occurred. As a result of these reviews, remedial actions have been taken in the areas of training, policy and operations.*

## **PERFORMANCE MEASURES**

The Board publishes in its annual report key operational statistics relating to its decisions such as number of hearings held in the year and grant and revocation rates.

However, grant and revocation rates do not reflect the effectiveness of Board decisions. Measures that are not subject to the decisions of the Board, such as re-offending rates (recidivism) of parolees based on new arrests, new charges, or new convictions, would be considered better measures of the Board's effectiveness.

The Board recognizes that the examination of offender recidivism during the parole period would be a useful measure of its performance. The Board indicated to us that it was in the process of developing an information system to capture data on parolee reoffences during parole and the seriousness of those offences for the purpose of recidivism analysis.

The success of the parole system also depends, to a considerable extent, on proper community supervision being provided by the Ministry. Accordingly, the effectiveness measures of the Ontario parole system cannot be complete without measuring the effectiveness of community supervision of parolees.

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### **Recommendation:**

The Ontario Board of Parole, in conjunction with the Ministry of the Solicitor General and Correctional Services, should implement better performance measures to report on the effectiveness of its parole decisions.

### **Board Response:**

*The effectiveness of conditional release mechanisms has been a significant concern to both the Ministry and Board. Therefore, a number of initiatives have been launched to examine conditional release decisions.*

*The development of additional indicators to reflect parole decision-making performance has been a prominent objective of the Board. For this reason, the Board has been developing an information system to collect further information about parolee re-offending during the parole period. This system, which has just completed one year of testing and refinement, is now fully operational. The system will be providing new, statistical information on the nature and seriousness of offences committed by parolees during the parole term.*

*Secondly, the Ministry, in consultation with the Board, is currently formulating a two-part research strategy to examine the issue of conditional release. The Ministry will begin monitoring the re-entry rates of offenders on an ongoing basis. As well, a work plan for conducting short-term and long-term research studies which examine various factors as they relate to conditional release outcomes is being developed. The plan is expected to be completed in the fall of 1995.*

## **SHORT-TERM OFFENDERS**

The mandate of the Ontario Board of Parole is to protect society by reintegrating offenders safely into the community so that their risk to society is reduced. Under current legislation, offenders sentenced to less than six months must apply for a parole hearing in writing, whereas those serving longer sentences will automatically have a hearing scheduled. The Board has expressed concern that it was not effectively meeting its mandate because more short-term offenders could be considered for and released on parole.

According to the Board, the majority of short-term inmates are not considered violent or of high risk to society. In fact, they would likely benefit from proper community support and appropriate treatment/counselling programs. While inmates serving less than six months accounted for over 80% of about 50,000 offenders admitted to Ontario's institutions in 1994, our review indicated that only about 3% of them received parole hearings. We noted that the cost of community supervision of non-violent offenders is significantly less than the cost of incarceration.

Our research of other provincial parole systems revealed that in 1993, the British Columbia Board of Parole initiated a pilot project to address the issue of parole for short-term offenders by automatically scheduling hearings for inmates serving sentences of over 90 days.

In addition, release of short-term offenders does not necessarily have to be considered by the Board of Parole. It may be impractical in cases where sentences are less than 90 days. For example, Quebec has addressed the issue of short-term, non-violent offenders by

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making extensive use of other community programs, such as temporary absence, allowed under the federal *Corrections and Conditional Release Act*. Heads of individual correctional institutions are authorized to release non-violent offenders into the community through these community programs.

Similar release options are also available in Ontario. However, we noted that in the 1993/1994 fiscal year, Ontario placed only 12% of the inmates on register in its institutions in community programs compared to 38% for Quebec. Greater utilization of community supervision options for non-violent offenders would address the Parole Board's concern with meeting its mandate and significantly reduce institutional costs to the Province, which in the 1993/94 fiscal year amounted to over \$400 million.

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**Recommendation:**

**The Board should work with the Ministry to maximize the use of cost-effective solutions to reintegrate low-risk offenders into the community.**

**Board Response:**

*The Board agrees that there is a need to ensure that conditional release options for all offenders are being met in the most cost-effective and appropriate manner possible. The Board will therefore continue to participate in and support the Ministry's development and implementation of the new offender classification and risk assessment process. This process will help to identify low-risk offenders whose needs may be equally or more appropriately addressed in the community, without undue risk to community safety. The Level of Service Inventory—Ontario Revision is expected to be fully operational in 1996.*

*The Ministry is presently testing several models for an extended temporary absence program. This program will greatly enhance release options for provincial incarcerates. Selection of a single model and a determination of guidelines will be completed by the end of 1995.*

# Quality and Standards Activity

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The Ministry of Transportation is responsible for the construction and maintenance of the provincial highway system, which consists of approximately 22,000 kilometres (49,000 lane kilometres) of roadway and 5,000 bridges and culverts. The system has an estimated replacement value of approximately \$30 billion. In addition, municipalities have responsibility for 127,000 kilometres of regional and local roads and over 9,000 bridges and culverts.

Ministry expenditures for the construction and rehabilitation of provincial highways during the 1994/95 fiscal year totalled approximately \$534 million (excluding highway 407). Expenditures for maintenance of these highways totalled \$258 million in the same year. The Ministry provided municipal roads subsidies in 1994/95 totalling approximately \$676 million, representing approximately 50% of the cost of constructing and maintaining municipal roads.

The Ministry of Transportation develops standards and regulations for the design, construction and maintenance of roads and related structures. It also develops standards with respect to other areas such as road safety, environmental issues and the acquisition of materials and services. Standards are set through a consultative process with appropriate stakeholders such as the municipalities, the Ministry of Environment and Energy, the Ministry of Natural Resources, and industry. Although the Ministry's standards are not binding on municipalities, they are adopted by some voluntarily.

The primary responsibility for developing and promulgating construction and maintenance standards rests with the Quality and Standards Division of the Ministry, which had 1994/95 expenditures of approximately \$55 million, \$36.4 million of which was for employee salaries and benefits.

## OBJECTIVES AND SCOPE

The objectives of our audit of the Quality and Standards Activity of the Ministry of Transportation were to assess:

- the procedures established by the Ministry for development of appropriate standards for design, construction and maintenance of a safe, efficient and economical roadway network;

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- the adequacy of the Ministry's procedures to ensure that current standards were being implemented; and
  - whether procedures to evaluate and report on program efficiency and effectiveness are adequate.

The scope of our audit included a review and analysis of the Ministry's current construction and maintenance standards as well as current literature in this field. In addition, we held in-depth discussions with appropriate staff and consultants at the Transport Engineering, Transport Operations, Research and Development, and Program Development branches. We also reviewed the appropriateness and implementation of established standards with staff at a sample of the Ministry's regional and district offices, municipalities, and technical experts outside of the Ministry.

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## OVERALL AUDIT OBSERVATIONS

The Ministry's standards for the design, construction and maintenance of Ontario highways are generally comparable to those of other jurisdictions in North America. However, over the past decade the physical condition of the infrastructure has significantly deteriorated, due primarily to a less than adequate program of rehabilitation and maintenance. There is a danger that unless remedial actions are taken, the condition of the infrastructure will continue to deteriorate to the point where a massive and costly reconstruction effort will become necessary.

To help counter such a scenario, the Ministry needs to ensure that its current standards and practices are cost effective. To do so, the Ministry needs to base its decisions with respect to rehabilitating the existing infrastructure and investment in new infrastructure on life-cycle cost analysis, which considers not only the initial design and construction costs, but also considers all future costs such as repairs and maintenance, replacement, and public inconvenience.

We also noted that at a time when the need for rehabilitation and maintenance is great, and quality control procedures have become increasingly complex, the Ministry's ability to monitor for compliance with its standards has been diminished. As a result, we urge the Ministry to accelerate the adoption of end-result specifications including performance-based standards, which, combined with contractors' warranties, would reduce overall cost to the Ministry.

In addition, recent technological developments have resulted in new materials and technology which can increase the life expectancy of roads and bridges, in some cases with little or no incremental cost. Two new technologies have been found by the Ministry to have significant advantages but have not been adopted to date.

## DETAILED AUDIT OBSERVATIONS

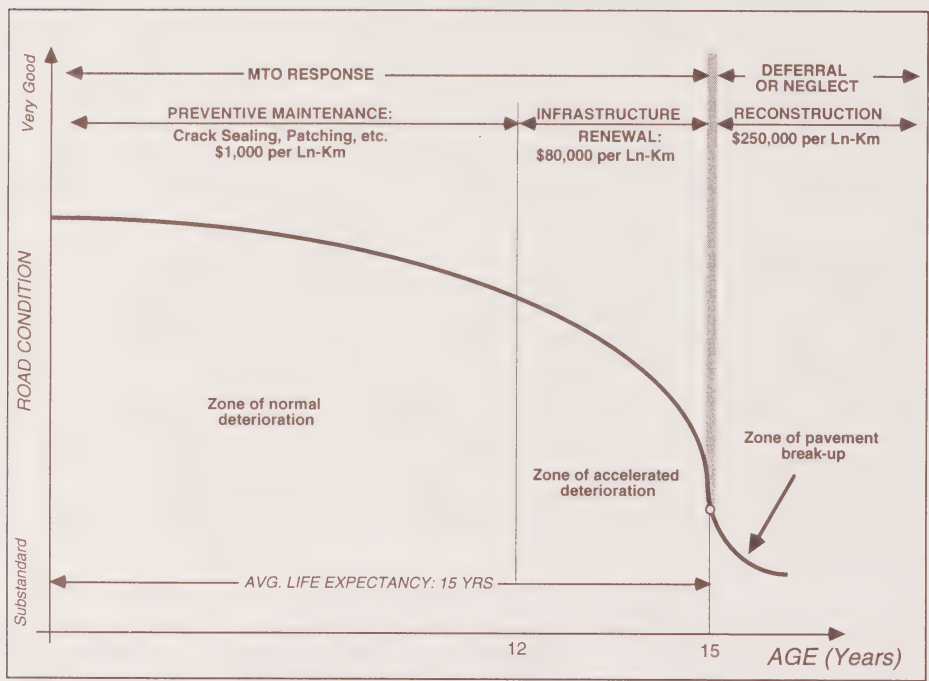
In Ontario, asphalt highways are normally designed to have an average life expectancy of approximately 15 years. During the first 12 years, it is usually sufficient to carry out some

basic preservation activity such as crack sealing and patching at an average cost of \$500 to \$1,000 per lane kilometre.

On average, by the end of year twelve the highway enters the stage of accelerated deterioration when basic preservation work is no longer cost effective and rehabilitation is normally required. Rehabilitation usually extends the life of the pavement by another 10 to 12 years. Rehabilitation entails resurfacing the road and repairing any localized damage to its base, and to adjacent ditches and drains if necessary. The average cost of rehabilitation is estimated at \$80,000 per lane kilometre.

If rehabilitation is not carried out at the appropriate time, the pavement deterioration accelerates and it eventually breaks up, requiring reconstruction at an average cost of approximately \$250,000 per lane kilometre.

This three-stage process is illustrated in the following chart.



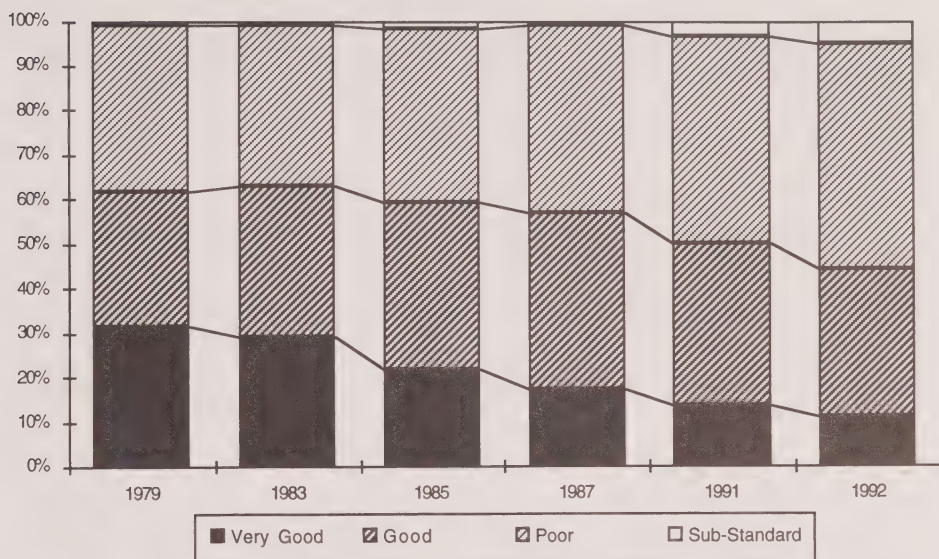
Source: Ministry of Transportation

## CURRENT HIGHWAY CONDITIONS

Information provided by the Ministry indicates that over the past ten years, the physical condition of provincial highways has been steadily deteriorating. As the following chart

indicates, almost 60% (30,000 lane kilometres) of highways are currently considered to be in poor or substandard condition, as compared to fewer than 40% in 1979.

Condition of Provincial Highways Over Time



Source: Ministry of Transportation

To arrest the deterioration of the infrastructure, the Ministry has formulated a "condition holding strategy" which will attempt to maintain the roadway in an acceptable condition while temporarily postponing major rehabilitation work and the need for it to be carried out all at once. The Ministry's strategy is to accomplish this by retaining the average pavement age at about 12 years through rehabilitation of only those roads in greatest need.

The Ministry has estimated the cost of this strategy to be approximately \$400 million annually for a period of five years, compared to the approximately \$580 million estimated to be required annually to maintain the average pavement age at the more optimal eight to ten years.

However, based on current funding, the Ministry was able to spend only \$202 million on rehabilitation in 1994/95. This represents a shortfall of \$198 million even from its condition holding strategy.

In addition, routine maintenance efforts have been less than ideal. Notwithstanding the natural ageing and deterioration of the existing infrastructure, expenditures incurred on routine preventive maintenance have remained relatively stable from 1987 to 1992. How-

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ever, in our 1992 audit we found that routine preventive maintenance work was not being carried out as frequently as required by the Ministry's own standards.

Although its maintenance effort in 1992 was already less than optimal, the Ministry's maintenance expenditures in 1994/95 were almost 30% lower than in 1991/92. This trend, if allowed to continue, will accelerate the deterioration of the infrastructure, resulting in premature requirements for rehabilitation.

Given the large gap between rehabilitation needs and actual funding, and the less than required maintenance levels being undertaken, it is crucial that the maximum benefit be received for each dollar spent on infrastructure construction and maintenance.

## **DESIGN, CONSTRUCTION AND MAINTENANCE STANDARDS**

Appropriate standards and specifications are essential to the Ministry's attempts to ensure the quality and performance of its road network.

Ministry design, construction and maintenance standards and specifications are documented in manuals as well as in computer form. They include geometric and design standards, the Ontario Provincial Standards Specifications (OPSS) for construction, special provisions as a complement to the OPSS, maintenance standards, and the Ontario Bridge Code.

### **LIFE-CYCLE COSTING**

Life-Cycle Costing Analysis (LCCA) is one tool available to evaluate the cost effectiveness of expenditures for roadways and structures. An LCCA ensures that the selection of highway or structure design is not based solely on the lowest initial costs, but instead considers all the future costs expected to be incurred over its usable life. Costs to be considered in this analysis include initial construction costs as well as future costs for repair and maintenance, replacement and resulting public inconvenience.

The Ministry's capability to carry out LCCA to evaluate the cost effectiveness of various design alternatives is currently limited. The only system available at the Ministry to perform LCCA is the Ontario Pavement Analysis and Cost system (OPAC). However, due to recognized weaknesses, this system has been targeted for major revision under a project named OPAC 2000. For example, the performance prediction model of asphalt pavements is considered not to be reliable beyond eight years, which severely limits its usefulness. The system also does not have the capability to perform LCCA for new construction of concrete pavements or any rehabilitation projects. This limits the usefulness of OPAC for life-cycle costing given that most of the work to be performed by the Ministry in the near future is expected to consist of rehabilitation projects.

Our interviews with Ministry staff have revealed that, while the concept of life-cycle costing is well understood, there is a need to develop a formal and explicit tool for LCCA. It is hoped that the new version of OPAC, currently under development, will provide the necessary tool.

The absence of LCCA can result in the design and construction of roads and structures that have an initially lower cost, but a higher cost in the long run through requirements for early repairs and maintenance or replacement.

For example, we noted an instance on a Highway 401 contract where remedial action was required on steel culverts as the piping had deteriorated, while concrete pipes installed under the same contract were described to be "in excellent condition." No analysis had originally been done to determine whether concrete pipes have an inherent cost advantage over steel pipes, and if so, under what circumstances. Although concrete, steel and plastic piping are all permitted under the Ministry standards, the contractor chose the least initial cost option which resulted in early replacement and higher costs in the long term.

In addition, as stated earlier, asphalt pavements are currently designed to last for a period of approximately 15 years while concrete pavements are generally designed to last 20 years. We were advised that some newer highways will be designed for a life span of 30 years. However, alternative life spans for highway designs and related life-cycle costs have not been evaluated by the Ministry.

According to a study by the Federal Highway Administration in the US, a 50-year pavement reconstruction strategy was shown to be the more cost effective when compared to a traditional 15- to 20-year design with three rehabilitations. This study was based on an LCCA of two pavement design alternatives and its conclusions apply to heavily travelled urbanized highways. We also note that many European highways are generally designed to last at least 50 years.

The use of life-cycle costing is also being promoted in other jurisdictions. For example, the Office of the Inspector General of the Department of Transportation in the US has found specific examples where the use of LCCA would have resulted in significant savings. It noted that in one project alone costing \$5.8 million, \$2.2 million in savings could have been realized over the life of the project had LCCA been used and an alternative design chosen.

The need for, and ability to undertake, necessary repairs and maintenance should also be considered under LCCA. This is especially important since the current shortfall in maintenance expenditures may result in roads deteriorating even faster than planned, thus requiring rehabilitation sooner than expected.

#### **Recommendation:**

**The Ministry should develop improved life-cycle costing procedures and incorporate life-cycle costing analyses into its design and construction decisions.**

#### **Ministry Response:**

***The Ministry agrees that the appropriate life-cycle costing analysis should be incorporated in the decision-making processes.***

***The Ministry will improve life-cycle costing analysis tools to facilitate greater consideration to this in the setting of priorities between maintenance, rehabilitation and system expansion initiatives. This will include the incorporation of life-cycle costing analysis techniques in the selection of materials, designs and acquisition methods.***

***Recognizing current funding limitations and needed infrastructure improvements, the effectiveness of life-cycle costing analysis would, however, be strengthened considerably through a multi-year approach to capital budgeting and decision-making.***

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## NEW MATERIALS AND TECHNOLOGIES

The incorporation of new and proven materials and technologies into Ministry standards and specifications is another way of enhancing the cost effectiveness and longevity of the provincial road network. We are pleased to note that, in general, the Ministry recognizes the importance of adopting new technology, and in 1994 reorganized its research function and set up a technology transfer group to ensure expeditious transfer of new technologies to the field.

In response to a deteriorating infrastructure, a significant amount of research has recently been carried out in the United States as well as in Canada under the Strategic Highway Research Program (SHRP). The \$150-million research program focused on developing and testing new and improved materials, equipment, and methods including test procedures. Canada participated in the program with a relatively small budget of \$5 million under the name Canada Strategic Highway Research Program.

The Ministry is currently evaluating many SHRP products and research results for application in Ontario and has already adopted several new materials with proven benefit. A good example of such adoption is micro-surfacing. This technology entails overlaying a thin layer of specially prepared asphalt mix on existing pavements. Such overlay does not need to be compacted and the site can often be reopened to traffic within an hour. In many circumstances, such as surface distress, it can be used as a rehabilitation alternative and is approximately 30% cheaper than conventional asphalt overlay.

Notwithstanding the successful application of some new materials, there are other proven materials that should be considered for early adoption in the province.

In conducting interviews with key research personnel in the Ministry and reviewing pertinent literature, we found that these technologies have the potential of extending the life of the infrastructure and/or minimizing associated maintenance costs, often with little or no additional up-front cost. The following are two examples of such materials.

### STONE MASTIC ASPHALT

Stone Mastic Asphalt (SMA) technology was developed in Germany and has been in use for over 20 years in Europe and Japan. It produces higher quality pavements which are less susceptible to deterioration and rutting.

The technology entails the mixing of aggregate material (sand and stones) with asphalt cement in a form, proportion and manner different from conventional pavement mixes. The major differences are that the asphalt cement content is higher and all aggregates are crushed and graded according to sizes before the mixing operation. SMA mixes have a higher proportion of coarse aggregates (stones) as opposed to fine aggregates (sandy material) than do conventional mixes.

Interest in this technology in North America has recently intensified. For example, since 1990 over 20 states in the United States have designed and constructed some SMA pavements. However, we understand that more widespread adoption has been limited in part by the expectation of higher initial costs.

To expedite the use of SMA pavements, the Office of Technology Applications of the Federal Highway Administration (FHWA) in the United States has formed technical working groups composed of officials from federal and state governments and the construction

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industry. Data obtained by the FHWA indicates that where SMA asphalt is being frequently used, its cost tends to come down. For example, as a result of volume purchases, the price of SMA asphalt in some areas has been only \$4 to \$5 more per ton than for conventional asphalt. A \$5 per ton differential in the price of SMA mix translates into an incremental cost of about \$2,000 per lane kilometre, or less than 5% of the cost for each lane kilometre rehabilitated.

However, SMA pavements can have a significantly longer life than conventional pavements. A paper presented at the 1994 annual conference of the Canadian Technical Asphalt Association indicated that SMA pavements could last more than 20 years without requiring rehabilitation. This compares very favourably with conventional asphalt pavements which usually require rehabilitation after about 12 years, and it would therefore be reasonable to expect lower life-cycle costs.

The Ministry has three experimental projects in which small sections of pavement were constructed with SMA technology in 1990 and 1991. We were advised by Ministry staff that the performance of these pavements has been satisfactory and they are expected to live up to their original expectations.

### **ADVANCED COMPOSITE MATERIALS**

Major costs of maintaining and repairing bridges and culverts frequently stem from the need to replace the steel-reinforced concrete decks. While the concrete by itself can last for many years, it is the steel reinforcing that normally corrodes, weakening the structure and thereby eventually rendering it unsafe.

To reduce corrosion, reinforcing steel has been coated with plastic-like material (epoxy-coated steel) to lessen the effect of exposure to corrosive substances such as de-icing salts. However, the resulting improvements in life expectancy have not been significant.

Currently, the Ministry's researchers are investigating the design of concrete bridge decks reinforced solely with plastic-like materials, referred to as Advanced Composite Materials (ACM), which have the potential to eliminate the use of steel. Test results have shown that these ACM fibres in conjunction with Portland concrete can provide the necessary structural strength required by the Ontario Bridge Code and therefore can be used in place of steel. Researchers expect that with the complete elimination of steel and the associated corrosion problems, life expectancy of structures should be substantially enhanced.

The use of ACMs is not entirely new. A number of bridges have been constructed in Germany and Japan using these materials. These are now about five to six years old and show no adverse effects.

A recent analysis by Ministry staff indicates that the cost of constructing ACM-reinforced structures would not be significantly different from the cost of constructing them using the traditional epoxy-coated steel. Therefore, any future reduction in the need for rehabilitation of the structures would result in net savings to the Ministry.

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**Recommendation:**

**The Ministry should ensure that cost-effective materials and technologies identified through its research efforts are incorporated into the Ministry's standards on a timely basis.**

**Ministry Response:**

*The Ministry agrees with this recommendation and will more aggressively pursue, and will encourage industry to more aggressively pursue, the introduction of new methods and standards emerging from research and development processes, incorporating appropriate testing to ensure cost effectiveness and safety considerations.*

## IMPLEMENTATION OF MINISTRY STANDARDS

To ensure that actual design and construction meet the Ministry's specifications, adequate tests and procedures are necessary to detect significant non-compliance with standards. Inspection and test results need to be adequately documented to permit subsequent review and analyses.

### COMPLIANCE WITH STANDARDS

#### DESIGN STANDARDS

Our review of the quality assurance function indicated that the Ministry's road and structure design process has in place a number of points of review which ensure compliance with all design standards and specifications. In addition, we were able to confirm compliance with these standards in a sample of project files reviewed.

#### CONSTRUCTION STANDARDS

We were unable to determine whether construction standards were being complied with. Our review of a sample of project files noted that although inspection diaries were maintained by Ministry inspectors, they often varied significantly in content. Typically, the diaries contained names of the persons on-site and ad hoc references to some of the work performed. However, there was a lack of formal documentation such as a checklist to ensure compliance with all applicable standards relevant to the particular project.

Consequently, there is no assurance that all applicable construction standards have been met and that the construction will meet its performance expectations.

**Recommendation:**

**The Ministry should institute more comprehensive documentation, including checklists, to ensure that all applicable construction standards have been complied with.**

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**Ministry Response:**

***The Ministry agrees with the importance of ensuring that all applicable construction standards have been complied with. Until end-result specifications are effectively implemented, the Ministry will reinforce the need to adhere to checklist and documentation requirements. At the same time, the Ministry is moving towards end-result specification and less site supervision, with appropriate accountability for quality being assigned to contractors.***

**TESTING PROCEDURES**

As part of its quality assurance procedures, Ministry personnel are required to conduct tests on samples of construction materials both during and after construction to ensure that they meet design specifications. We found that in some circumstances these procedures were not satisfactory.

For example, quality assurance tests of asphalt mixes include a test which evaluates the proportion of air in the mixture, which is referred to as the "void" test. Currently, standards require that an asphalt mix should have 3% to 5% of air in the mix. Since testing capabilities were not precise prior to 1990, a field guideline was developed which allowed for a margin of error of plus or minus 1%. We noted that testing capabilities have since improved significantly but this has not been reflected in the field guideline. As a result, the Ministry continues to accept asphalt with void tests results of 2% to 6%.

We understand that the impact of accepting low air in the mixture is less pavement durability, which can result in premature rutting.

At the time of our audit, the Ministry was conducting an analysis of pavements placed during 1993. Preliminary results using the improved testing indicate that approximately 50% of the asphalt mixes placed in 1993 were below the 3% acceptable limit. We estimate that, as a result, approximately 2,000 lane kilometres are negatively affected.

During 1994, the Ministry also performed a random quality control test of culverts constructed prior to that year. Test results obtained indicated that as many as 80% of culvert pipes failed to meet the minimum standards for thickness established by the Ministry.

**Recommendation:**

**In order to assess compliance with construction specifications, the Ministry should institute the necessary testing procedures and maintain adequate documentation to demonstrate that all construction complies with design specifications.**

**Ministry Response:**

***The Ministry agrees with the need to have proper testing procedures with adequate documentation. The Ministry is pursuing this as part of the leading edge in quality management.***

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## END-RESULT SPECIFICATIONS

The Ministry's construction standards and specifications have traditionally been very prescriptive in nature, describing every aspect of construction including the methods and materials to be used and their sources of acquisition. Consequently, contractors assumed very limited risk on construction projects, provided they followed the Ministry's specifications. This placed additional importance on the Ministry's inspection process as it was the primary means of monitoring the quality of the contractor's work.

As part of a general trend in North America, necessitated in part by limited inspection resources, the Ministry has over the past few years started to modify its standards and specifications in an attempt to shift reasonable responsibility over to the construction industry. In doing so, some standards have been modified from the prescriptive methods to end-result specifications (ERS). ERS are intended to ensure that the product supplied by the contractor meet some predetermined performance criteria irrespective of the production process. The specified criteria can be confirmed by various post-construction means, subject to test limitations.

The Ministry has also been exploring the use of a special type of ERS known as "performance-based specifications." These types of specifications require that the end-result specifications be directly related to the performance of the final product and normally provide for price adjustments or specific warranty provisions where performance does not meet requirements.

Interviews with Ministry personnel indicated that, given current circumstances, there are no alternatives other than to proceed further with ERS. In addition, our review of current literature indicates that ERS-based contracts have generally worked well provided appropriate quality assurance arrangements are in place and are backed by reasonable warranties from the contractors. In many European countries it is the common practice, and many US states are now using ERS.

### **Recommendation:**

**The Ministry should expand the use of end-result specifications, including performance-based specifications, and thereby make contractors more accountable for the quality of their work.**

### **Ministry Response:**

***The Ministry is proceeding with implementation of end-result specifications for additional attributes of the construction products. Performance is an inherent feature in these specifications. As well, direct performance-based specifications will be introduced.***

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## WARRANTIES AND PENALTIES

The Ministry has recognized the need for bonus/penalty clauses and warranty provisions, and has incorporated some of these into its current standards. However in some cases penalty clauses and warranty provisions are either not fully imposed or are not sufficient to work as an effective deterrent. The following example illustrates our concern.

Pavement segregation can occur due to poor paving operations, and can result in the break-up of the pavement surface. Segregation is normally evaluated as mild, medium or severe. Where segregation is judged to be severe, the contractor is required to remove and replace those areas at the contractor's own expense. Where segregation is considered to be medium, the contractor has the option of accepting a reduced price or undertaking remedial action by removing and replacing the surface at no additional cost to the Ministry. As the penalty is only \$2,000 per contract plus \$2.00 per square metre, it is usually less costly for the contractor to accept a downward price adjustment than to fix the problem.

Our audit noted an instance where segregation had occurred and the pavement had to be replaced after only four years. The total cost of the remedial work to the Ministry was \$500,000. However, since the segregation was judged to be medium at the time of reconstruction, the penalty imposed on the contractor was only \$2,500. Had an effective performance-based contract with appropriate warranty provisions been in place, the onus would have been on the contractor to remedy the situation at no additional cost to the Ministry.

Our research found that warranties have been successfully used in other jurisdictions, such as the United States and Europe, for projects ranging from rehabilitation to incorporation of new technologies to maintenance work. Typically the warranty period has been between one and five years.

In Ontario, the Ministry has been reluctant to implement warranties because of potential cost increases and lack of industry support. Although the experience in the US with warranties is still limited, a report from the General Accounting Office on Highway Infrastructure indicated that the presence of a warranty had a minimal impact on initial costs.

We understand that regional offices have in some instances used bonus and warranty provisions in contracts on an ad hoc and limited basis. For example, a one-year warranty was required from a contractor in one region for a surface treatment job. We understand that the contractor was asked to provide an irrevocable Letter of Credit from a Canadian bank for an amount equivalent to 20% of the contract price.

### Recommendation:

**With due regard to the difficulties of measuring performance, the Ministry should strengthen penalty provisions and implement warranty requirements which provide an effective deterrent against substandard work.**

### Ministry Response:

***The Ministry is already incorporating bonus/penalty clauses in contracts. Penalties for substandard performance are incorporated in the end-result specifications. The Ministry is proceeding with warranty requirements on specific contracts.***

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## MANAGEMENT INFORMATION SYSTEMS

To effectively manage the road network, the Ministry requires a management information system which provides accurate and relevant information on a timely basis. Ideally, such a system would provide all necessary information with respect to a particular section of road or structure, including:

- geometric and geotechnical data of the particular location;
- a description of the type of construction including ancillary features such as drains, safety barriers, and illumination if any;
- historical information about repair and maintenance work performed; and
- condition assessments, such as roughness or surface distress.

Such information would assist the Ministry in monitoring for compliance with its construction and maintenance standards and in determining whether design performance expectations are being met.

The Ministry presently does not have such an information system. Instead, it operates several independent systems which in some instances duplicate each other. For example, there is a substantial amount of common data related to structures which is entered and maintained separately in both the structures inventory system and the system used for capital expenditure planning.

Of the several systems that the Ministry operates, the most important one is the inventory system which provides information about the physical condition of the network. However, the system lacks critical information such as the history of construction and maintenance activities and their costs. In the absence of such data, the Ministry cannot evaluate past design, construction and maintenance practices or relate them to the current state of the infrastructure. The absence of this information also inhibits performance of life-cycle costing analysis.

We also noted that the Ministry does not have a maintenance management system although it is in the process of developing one. The proposed system, when operational, is to be designed to track the type of activities undertaken and resources used in maintenance operations. No comparable plans exist for accumulating construction data, although the information remains available in paper form distributed among various project files.

The Ministry has recognized the difficulty in accessing the different types of information by location and is working towards an integrated linear referencing system as part of its Integrated Highway Information Systems project. This project, when complete, will have the capability to identify and associate activities and information currently available with specific segments of a highway.

### **Recommendation:**

**The Ministry should develop and integrate the construction and maintenance databases required to more effectively manage its road network.**

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**Ministry Response:**

***The Ministry agrees with this recommendation, and is currently proceeding to develop these integrated systems with the appropriate linkages.***

## **MUNICIPAL ROADS ACCOUNTABILITY**

Total provincial funding for municipal roads for both 1994/95 and 1993/94 was approximately \$700 million. Given the magnitude of this expenditure, it is important that there be adequate accountability mechanisms in place at the Ministry to ensure that these dollars are spent cost effectively.

**3.19**

The Ontario Provincial Standards for construction (OPS) are developed in conjunction with the municipal sector in an attempt to have cost effectiveness and consistency in the construction of roads throughout the province. However, compliance with these standards is voluntary and is not a condition for subsidy. Municipalities are only required to follow the Ministry's geometric standards and directives and the Ontario Bridge Code.

A recent business review of the OPS conducted by a consultant on behalf of the Ministry did find that a high percentage of the municipalities use the OPS in some form. However, it also found that the larger municipalities, which account for most of the funding under the program, have developed their own standards and only use a few standards from the OPS.

We recognize that it may not be practical for the Ministry to impose all its standards on the municipalities and monitor their activities. However, there is a need for an accountability mechanism by which the responsibility for cost-effective use of the provincial funds is clearly delineated.

In 1993, the Ministry's Alternative Funding Report suggested a change to the method used to fund the Municipal Roads Subsidies program. The Ministry's funding was to be based on two factors. They are the average annual costs of specific predetermined service-level standards—such as frequency of snow clearing—and the size and type of the road network. The physical condition of the municipalities' roads will no longer be a factor. The result of the change would be that inferior road conditions due to inappropriate maintenance by a municipality will no longer attract increased funding from the Province. In this way, the Ministry hopes to encourage greater efficiency and make the municipalities accountable for the quality of their roads and the level of services provided.

**Recommendation:**

**The Ministry should ensure that municipal roads are built to appropriate service-level standards, including due regard for cost effectiveness.**

**Ministry Response:**

***Several initiatives towards improved accountability for municipalities with respect to cost-effectiveness and appropriate service standards were identified in a recent review of municipal transportation funding alternatives. The Ministry will continue to work with the municipalities and the Ontario Good Roads Association.***

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## CHAPTER FOUR

# Follow-up of Observations and Recommendations in the 1993 Annual Report

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Beginning with our 1993 *Annual Report*, we introduced a new reporting practice which focused on making specific recommendations to correct deficiencies. The auditees' responses contained in our 1993 *Annual Report* indicated that action had already been taken or was being planned to implement many of our recommendations. In this regard, during the 1993 draft audit report clearance process we informed each deputy minister of our plan to institute a more formal process of follow-up on issues raised and recommendations made and to report on their status. Our new approach to following up has resulted in this separate chapter which provides a detailed account of the current status of recommendations made in the 1993 *Annual Report*.

We are pleased to report that, for the most part, ministries and agencies are taking action to address the audit observations and recommendations contained in our 1993 *Annual Report*. However, progress is quite slow in the following important areas:

- developing a workable legislated accountability framework; and
- measuring and reporting on the effectiveness of government programs.

## CURRENT STATUS OF OUR 1993 REPORT RECOMMENDATIONS

This part of the chapter provides some background on the audits comprising the Value for Money Chapter of our 1993 *Annual Report* as well as the current status of each recommendation made. In many cases, our recommendations have been either fully or substantially implemented. However, in several cases, progress has been slow or is ongoing. Where the recommendation has not been implemented, or is still in the process of implementation, a brief description of the current status of the recommendation is provided.

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## MINISTRY OF AGRICULTURE, FOOD AND RURAL AFFAIRS - CROP INSURANCE COMMISSION OF ONTARIO - 1993 - SECTION 3.01

### BACKGROUND

During our annual audit of the Commission's financial statements, we encountered significant problems and delays due to inadequate accounting procedures in several critical areas. As a result, we urged the Commission to implement the recommendations contained in a consultants' report in order to strengthen internal controls and improve accounting procedures to enhance the program's performance.

### CURRENT STATUS OF RECOMMENDATIONS

All of our 1993 recommendations covering the following areas have been substantially implemented:

- Adoption of Consultants' Report as Action Plan; and
- Timely Payment of Farmers' Claims.

## MINISTRY OF THE ATTORNEY GENERAL - CRIMINAL LAW - 1993 - SECTION 3.02

### BACKGROUND

The Ministry of the Attorney General's Criminal Law Division prosecutes crimes under the *Criminal Code of Canada* as well as provincial offences under the *Highway Traffic Act*, *Liquor Licence Act* and municipal by-laws. The Ontario Courts of Justice are divided into two divisions: the Provincial Division and the General Division. Less serious offences are normally tried in Provincial Division courts and the more serious *Criminal Code* offences are usually tried in General Division courts with or without a jury. Our audit focused on the Ministry's case and resource management practices. We made several suggestions for improvement in case resolution procedures and for better utilization of courtroom and judicial resources. These recommendations complemented several significant initiatives under way at the Ministry at the time.

### CURRENT STATUS OF RECOMMENDATIONS

The Ministry has taken some action on all the recommendations that we made in 1993. Recommendations relating to the following areas have been substantially implemented:

- Policy Directives and Guidelines; and
- Reports to Regions and Districts.

Action on our other recommendations is ongoing, as follows:

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## CASE MANAGEMENT

### Recommendation

*The Ministry should monitor the rates of resolution-without-trial, withdrawal on the date of trial, trial frequency, and overall conviction in each district and obtain explanations for significant variances from expected norms or targets.*

### Current Status

In 1993, an Investment Strategy was started to improve the operational efficiencies and cost effectiveness of the criminal justice system. The focus of the Strategy was, to a large extent, the removal of less serious offences at an earlier stage in the judicial process, to enable limited justice system resources to concentrate on the more serious offences. The Ministry has since implemented revised Crown practices which included measurable targets for case resolution, namely: an increase in the early resolution rate from 59% of the caseload to 72%; a reduction in the trial rate from 12% to 9%; a significant reduction in the number of indictments added in the General Division, and a significant reduction in the Red Alert Index, that is, the number of charges over eight months old before coming to trial. The targets were to be achieved over a two-year period.

The Ministry of the Attorney General reports on a quarterly basis progress towards achieving the targets. As at March 31, 1995, the Ministry reported that 25 of the 62 Provincial Division Criminal courts had attained both goals of an early resolution rate and a reduction in trial rate. Many other court locations have attained one of the goals but not both. The overall provincial averages are now a 69.3% early resolution rate and a 10.6% trial rate. In addition, the Ministry reported a reduction in the number of indictments added in the General Division from 2,100 to 1,600, or 25% between the 4th quarter of 1993 and the 1st quarter of 1995.

The Red Alert Index of cases adjourned to a date more than eight months after the charge date increased slightly from 22,419 charges in the 2nd quarter of 1993 to 23,920 charges in the 1st quarter of 1995, an increase of 6%. The Ministry attributed this increase to a combination of a steady increase in charges received since the 1st quarter of 1994 and increasingly lengthy trials.

The Criminal Law Division recently devised a multi-faceted plan, known as its Service Renewal Plan, to implement further efficiencies in the criminal justice system. These include legislative changes that are being recommended to the federal and provincial governments that will significantly reduce the increasing demand on the criminal courts in the face of growth in charges received and length of trials.

### Recommendation

*The Ministry should, in co-operation with judges, take steps to encourage co-ordination and best case management practices at the district level.*

### Current Status

In 1994, the Ministry approved the implementation of an Infrastructure project, which established information technology infrastructures in locations where the operating divisions are co-located. Further expansion of the project is contingent upon available funding in 1995.

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In addition, the Ministry is a participant in a recently initiated Integrated Justice Project with the Ministry of the Solicitor General and Correctional Services and the Management Board Secretariat to create a system of integrated justice services of maximum efficiency.

## **RESOURCE MANAGEMENT**

### **Recommendation**

*For more timely disposition of cases, the Ministry, in co-operation with judges, should make every effort to more fully utilize available courtroom and judicial resources, and closely monitor the number of charges disposed of per court day in all districts.*

### **Current Status**

Reports on courtroom utilization are being provided to the Criminal Law Division and the Chief Judge's Office. The Chief Judge of the Ontario Court (Provincial Division) has assumed responsibility for the monitoring of judicial sitting time and disposition rates.

### **Recommendation**

*To ensure effective case and resource management, the Ministry's information systems for the General and Provincial Divisions should be made compatible and should be enhanced to provide meaningful data on individual cases or defendants, as well as comparative data on a district and regional basis.*

### **Current Status**

Work has commenced in the Chief Justice's Office to determine the need for management information, technology and automation with regard to General Division case tracking. This review will also include determination of targets/objectives for trial rates, early resolution rates and times to trial. It is anticipated that more detailed work required will be undertaken in the 1995/96 fiscal year.

### **Recommendation**

*Professional time should be accounted for practically and reliably, and a caseload allocation model should be developed to help set reasonable standards and ensure that resources are managed effectively.*

### **Current Status**

The Division's Workload Indicators Project has the mandate to determine appropriate workload standards and to develop attendant resourcing models for the Division. The project continued through 1994.

The Division also completed two docketing exercises, the latest in October 1994, to collect the information required to consider a number of "case type" models. A final report detailing a Crown resourcing model was to be presented to the Division's senior management Committee in September 1995.

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## MINISTRY OF THE ATTORNEY GENERAL - ONTARIO LEGAL AID PLAN - 1993 - SECTION 3.03

### BACKGROUND

The Ontario Legal Aid Plan was established in 1967 to help Ontarians receive legal representation or advice when they are not able to pay for some or all of it themselves. The Plan is operated by the Law Society of Upper Canada and mainly funded by the Province, with contributions from the federal government and the Law Foundation of Ontario.

In 1993, we assessed the adequacy of the Plan's procedures to ensure that legal aid certificates were issued to eligible applicants on a timely basis. We recommended the streamlining of approval procedures for Legal Aid applications and stricter compliance with procedures to ensure adequate verification of eligibility.

### CURRENT STATUS OF RECOMMENDATIONS

Our 1993 recommendations covering the following areas have been substantially implemented:

- Approval Process; and
- Verification of Assets and Income.

## MINISTRY OF COMMUNITY AND SOCIAL SERVICES - CHILD AND FAMILY INTERVENTION PROGRAM -1993 - SECTION 3.04

### BACKGROUND

In 1993, we assessed the Ministry's monitoring procedures for ensuring that Child and Family Intervention (CFI) agencies complied with the *Child and Family Services Act* and Regulations and Ministry procedures, and that counselling and parent training services provided by the CFI agencies to children and their families were adequate and cost effective.

We made several recommendations for improvement in the management of the program.

In the winter of 1994, the Standing Committee on Public Accounts held hearings on our audit. During the hearings, the Ministry provided the Committee with information on the actions it was taking to address the issues identified in our Report. The Committee focused its interest on the following subject areas where we had made recommendations for improvement:

- Program Definition and Funding;
- Access to Services; and
- Serious Occurrences.

In its October 1994 Report to the Legislative Assembly, the Committee concurred with and reinforced our recommendations in these areas.

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## CURRENT STATUS OF RECOMMENDATIONS

The Ministry has taken action on some of our recommendations made in 1993. Recommendations relating to the following areas have been substantially implemented:

- Program Definition;
- Review Guidelines for Non-residential Programs; and
- A Management Information System.

However, we have reservations about the Ministry's progress in implementing our two other recommendations:

### SERIOUS OCCURRENCES

The *Child and Family Services Act* requires all incidents such as physical injury, assault or abuse of children to be reported to the Ministry within 24 hours.

#### Recommendation

*To provide assurance that children are well protected, the Ministry should ensure compliance with its serious occurrence reporting procedures and take appropriate corrective action.*

#### Current Status

The Ministry advised us in February 1995 that it had:

- developed a standard provincial form for agencies to use when completing the summary and analysis report;
- developed a communiqué for area offices and service providers providing further direction and clarification of the definitions of serious occurrences; and
- issued a directive in the fall of 1993 to all area offices and service providers reinforcing the Ministry's requirements for compliance with serious occurrence reporting procedures.

We acknowledge the Ministry's effort in standardizing procedures for the monitoring and reporting of serious occurrences by service providers. However, we have reservations about the Ministry's progress in ensuring compliance with these procedures. Our concerns stem from our 1995 audit of the Ministry's Facilities for People with Developmental Disabilities where we noted that improvements were still needed in this area. We noted a need for ongoing monitoring and stricter enforcement by the Ministry to ensure serious occurrences are reported to the Ministry for action.

### ECONOMY AND EFFICIENCY

#### Recommendation

*The Ministry should develop a range of acceptable costs and staffing levels for Child and Family Intervention services to guide Ministry and agency staff in identifying significant variations in costs. This will enable the Ministry to take corrective measures to control costs.*

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## Current Status

The Ministry advised us in February 1995 that a residential funding working group had been established to complete an analysis of residential services costs and to develop recommendations by the summer of 1995.

Through further discussions with Ministry officials, we were informed that significant progress had been made and that the cost analysis information was expected to be ready early in the fall of 1995.

# MINISTRY OF COMMUNITY AND SOCIAL SERVICES - YOUNG OFFENDER SERVICES - 1993 - SECTION 3.05

## BACKGROUND

In 1993, we assessed the Ministry's procedures for monitoring its Young Offender Services, which affects offenders between 12 and 15 years of age, for compliance with the federal *Young Offenders Act*, the provincial *Child and Family Services Act*, and related Regulations and Ministry procedures. We also assessed the Ministry's procedures for ensuring that funds were spent in a cost-effective manner. We were pleased that the Ministry responded positively to our audit recommendations.

In the winter of 1994, the Standing Committee on Public Accounts held hearings on our audit. During the hearings, the Ministry provided the Committee with information on the actions it was taking to address the issues identified in our Report. The Committee focused its interest on the following subject areas where we had made recommendations for improvement:

- Compliance with Court Orders; and
- Placements.

In its October 1994 Report to the Legislative Assembly, the Committee concurred with and reinforced our recommendations in these areas.

## CURRENT STATUS OF RECOMMENDATIONS

The Ministry has taken action on some of our 1993 recommendations. Recommendations relating to the following areas have been substantially implemented:

- Licensing Inspections; and
- Placements.

However, the Ministry's progress in implementing our four other recommendations has been slow. These areas are discussed below.

## COURT ORDERS

### Recommendation

*The Ministry should ensure that proper documentation is retained on file to support enforcement of the orders of the Youth Courts. Reasons should also be documented where the Ministry exercises discretion to waive certain terms and conditions of a probation or community service order. This*

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*will provide assurance that the Ministry has complied with all terms and conditions of the Court Order before a young offender is discharged.*

### **Current Status**

The Ministry advised us in February 1995 that directions to probation officers to document/account for all uses of discretion had been clarified through the implementation of Risk/Need and Case Management Planning. The Ministry also indicated that a process was under way to develop/clarify additional expectations for case notes, audits and file reviews, with completion expected in June 1995.

However, in follow-up discussions with Ministry management, we were informed that the Ministry was working to establish a new time frame for the completion of a process for developing/clarifying its additional expectations for case notes, audits and file reviews. The Ministry indicated that implementation of the Young Offenders Strategic Information System (version 2) was expected to begin in September 1995 and that the Ministry would make revisions to requirements for case notes, audits and file reviews by February 1, 1996 as a result of these changes and changes to Risk/Need Assessment and Case Management Planning.

### **COMPLAINTS AND SERIOUS OCCURRENCES**

Under the *Child and Family Services Act*, a young offender has the right to make complaints regarding alleged violations of rights and to have the complaints reviewed by the administrator of the residential facility. Additionally, facilities are required to report serious occurrences such as physical injury, assault or abuse of children to the Ministry within 24 hours.

### **Recommendation**

*The Ministry should ensure that the facilities comply with the requirements for reporting serious occurrences. Proper analysis of these reports will enable the Ministry to identify problematic trends that may require corrective action.*

### **Current Status**

The Ministry advised us in February 1995 that in September 1993 it had developed a provincial "Summary and Analysis Report" form, distributed "Questions and Answers" clarifying the definitions and procedures regarding the reporting of serious occurrences and issued an Assistant Deputy Minister directive to area offices and service providers.

We acknowledge the Ministry's efforts in standardizing procedures for the monitoring and reporting of serious occurrences by service providers. However, we have reservations about the Ministry's progress in ensuring compliance with these procedures. Our concerns stem from our 1995 audit of the Ministry's Facilities for People with Developmental Disabilities where we noted that improvements were still needed in this area. We noted a need for ongoing monitoring and stricter enforcement by the Ministry to ensure serious occurrences are reported to the Ministry for action.

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## CASE MANAGEMENT

### Recommendation

*The Ministry should establish a formal review process to ensure compliance with the Young Offender Services Manual. This will provide assurance on whether service providers are meeting the expected Ministry standards and [are] complying with established guidelines. The process will further enhance consistency in the level of young offender services provided across the province.*

### Current Status

The Ministry advised us in February 1995 that:

- options for an approach to compliance would be developed in the spring of 1995; a finalized process would be dependent on further Ministry work re accountability and licensing as well as developments with the Office of Youth Justice regarding the blending of young offender services with the Ministry of the Solicitor General and Correctional Services;
- the *Children's Residence Licensing Manual* had been revised and distributed. All licensing reviews after April 1993 would include the new /revised directives; and that
- draft tools for licensing officers and options to address standards not covered by licensing would be developed for consultation and direction, following identification of a formal compliance review process in the spring of 1995.

However, on further follow-up, we noted that progress has been slow. The Ministry advised that it was in the process of revising the *Young Offender Services Manual* and would be including a process to ensure compliance with the manual requirements/standards as part of the revisions. According to the Ministry, the new manual is expected to be completed by February 1, 1996.

## EQUITABLE ALLOCATION OF FUNDS

### Recommendation

*The Ministry should improve the processes for equitable allocation of funds so that they are more appropriately based on priority of needs.*

### Current Status

The Ministry advised us in February 1995 that the funding working group of the Children's Services Policy Framework project had completed a discussion paper setting out proposals for an equitable funding model for all children's services including young offenders. The Ministry indicated that it would be presenting recommendations for the Minister's consideration by May 1995 and that the review of Young Offender Area plans would then make use of the approved model in dealing with resource allocation equity issues.

On further follow-up, we noted that the Ministry's "Funding Working Group" had completed a draft discussion paper on equitable funding in March 1995. The Ministry advised that it would be making recommendations to the new Minister by the end of the summer of 1995.

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# MINISTRY OF CONSUMER AND COMMERCIAL RELATIONS - REGISTRAR GENERAL IMAGING SYSTEM - 1993 - SECTION 3.06

## BACKGROUND

The Office of the Registrar General (the Branch) registers vital events in the lives of Ontario citizens—births, marriages, deaths, stillbirths, adoptions, divorces and name changes. In 1991, the Branch implemented a \$9.3 million computerized imaging technology project which enables staff to view images of the original registration documents on computer screens rather than having to retrieve the actual paper documents.

In 1993, we assessed the impact on customer service and benefits of the imaging technology project in the storage and retrieval of documents such as birth, marriage and death certificates. Overall, we recommended that the registration process be streamlined to achieve greater benefits from this technology and improve service to the public.

## CURRENT STATUS OF RECOMMENDATIONS

The Ministry has taken action on some of our recommendations made in 1993. Recommendations relating to the following areas have been implemented:

- premium charge for same day counter services;
- amending the *Vital Statistics Act* to share information with the Ministry of Health; and
- daily reconciliation procedures for the safeguarding of blank certificates.

However, with respect to the other recommendations, the Ministry has indicated that constraints have hindered the progress of its action. The status of the action taken in these areas is as follows:

### GENERAL BENEFITS OF IMAGING TECHNOLOGY

#### Recommendation

*To harness the full potential and productivity improvements from imaging, the Branch should more fully integrate its imaging system with the existing vital statistics computer system.*

#### Current Status

The Ministry indicated that the existing vital statistics computer must be replaced in order to achieve proper integration with the imaging system. To date the Ministry has initiated some of the necessary work, including analysis of project requirements and commencement of a requirement definition study. The Ministry recognizes the value of an integrated Vital Statistics Management System and will pursue the matter when funding is available.

### IMPACT ON CUSTOMER SERVICE

#### Recommendation

*The Branch should consider streamlining the entire registration process to improve service to the public.*

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## **Current Status**

Significant improvement in the registration process will be a major component of a project to replace the existing vital statistics computer system and to integrate it with the imaging system. Also, the Ministry has proposed developing a joint data collection system with the Ministry of Health which will lead to the development of an electronic registration system and the streamlining of the registration of births. However, progress to date has been slow.

## **DATA ACCURACY**

### **Recommendation**

*The Branch should establish targets for data accuracy and conduct periodic tests to assess whether the targets are being met.*

### **Current Status**

The Branch has not established targets for data accuracy but has established a Quality Assurance Group to define, review and recommend quality assurance initiatives.

Also, the current imaging system has only a very limited editing capability. The Branch intends to enhance this function when developing the replacement system.

## **MINISTRY OF EDUCATION AND TRAINING - CURRICULUM DEVELOPMENT - 1993 - SECTION 3.07**

### **BACKGROUND**

In 1993 we assessed the arrangements in place to ensure that a curriculum of consistent quality for both official languages is taught and learned in the province, including:

- the process by which the curriculum is developed and communicated to school boards and schools; and
- the mechanisms in place to determine whether the prescribed curriculum is actually taught in the schools and whether students acquire the intended knowledge, values and skills.

We concluded that arrangements for the development and delivery of curriculum could be more cost effective and were not adequate to determine that a curriculum of consistent quality in both official languages was taught and learned across the province. Several recommendations were made to address our concerns.

In the spring of 1994 the Ministry appeared before the Standing Committee on Public Accounts to discuss the report. In October 1994, the Committee made several similar recommendations to the Ministry.

### **CURRENT STATUS OF RECOMMENDATIONS**

The Ministry has commenced actions on all of our recommendations made in 1993, although many of the more significant actions were delayed pending the recommendations of the Royal Commission on Learning released in January 1995.

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We had made recommendations for the Ministry to:

- reduce costs and eliminate unnecessary duplication in developing the new common curriculum documents;
- involve other stakeholders in the education process in improving curriculum and in establishing standards;
- ensure technology curriculum program objectives are met;
- co-ordinate the delivery of French language curriculum in the province;
- ensure the cost-effective delivery of French language materials;
- study the entire accountability structure with a view to improving the consistency and quality of education, Province-wide;
- review its criteria for teacher certification;
- improve teacher in-service training;
- address technology teachers' needs in its teacher training program; and
- develop a strategy to ensure that all French language schools and teachers have equitable access to services and that those services are monitored.

As many of our recommendations and those of the Commission are far-reaching and require several related actions to implement, most action plans are still in process and in many cases will not be fully implemented for several years. Timetables have been established for each.

One aspect that needs further clarity to ensure effective accountability is the role of the Ministry's regional offices relative to that of school boards and trustees in ensuring that school boards and schools comply with important policies and procedures. Although some progress has been made to improve accountability, regional office responsibilities remain unclear. On a concern we had reported in 1990, regarding deficiencies in monitoring school boards for compliance with funding conditions and in verifying the reliability of information provided by school boards for funding purposes, corrective action has only recently been taken.

## **MINISTRY OF EDUCATION AND TRAINING - SPECIAL EDUCATION - 1993 - SECTION 3.08**

### **BACKGROUND**

The *Education Act* states "the Minister shall ensure that all exceptional children in Ontario have available to them appropriate special education programs and special education services." The Act defines an exceptional child as one whose behaviour, communicative, intellectual, or physical needs, or a combination of these, are such that a child may benefit from a special education program.

The Ministry has overall responsibility for the development of legislation, regulations and guidelines for the provision of special education programs and services, and school boards are responsible for the provision of those programs and services. While there are many legal requirements governing the delivery of special education, each school board may decide for itself how best to meet the needs of exceptional students.

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We assessed whether there were satisfactory procedures in place to determine compliance with special education legislation, regulations and policies, and to measure and report on the effectiveness of special education programs and services. We found serious weaknesses in established procedures and made several recommendations for improvement.

The Standing Committee on Public Accounts held meetings to discuss our report and in October, 1994 made several related and additional recommendations to the Ministry to improve special education programs and services.

## **CURRENT STATUS OF RECOMMENDATIONS**

The Ministry has commenced action on all of our recommendations made in 1993. The recommendation relating to the following area has been fully addressed:

- providing better guidance to school board Special Education Advisory Committees to ensure they play a more effective role in planning and monitoring special education programs and services.

Other recommendations we made were intended to:

- improve the quality and monitoring of plans for special education programs and services prepared by school boards;
- clarify and update the definitions of exceptionalities to promote consistent and complete identification of students requiring special services;
- ensure cost effective provision of specialist assessment services;
- determine the effectiveness of programs and services offered by boards in relation to costs and identify and share cost-effective practices with all boards;
- ensure teachers have sufficient appropriate training and support to deliver special education programs; and
- determine whether special purpose grants made to school boards to provide for certain special education programs and services are spent for the purposes intended.

Action plans are underway, some of which will require several years to complete. As with the previous section on Curriculum Development, we see a need to further clarify the roles and responsibilities of the Ministry's regional offices in relation to school boards and schools in order to establish a cost-effective means of determining whether school boards and schools comply with special education legislation, regulations and policies.

There is also a need to establish an ongoing process to determine and report on the effectiveness of special education programs and services provided by school boards and schools in relation to their costs.

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## **MINISTRY OF EDUCATION AND TRAINING - INFORMATION TECHNOLOGY PROJECT AT THE STUDENT SUPPORT BRANCH - 1993 - SECTION 3.09**

### **BACKGROUND**

The main objective of the Ontario Student Assistance Program at the time of our audit was to provide grants and loans to academically qualified and financially needy Ontario residents to enable them to attend an approved post-secondary institution. During our audit we assessed the management benefits resulting from the implementation of an integrated imaging system to computerize the processing of applications for grants and loans. We noted a number of best practices had been utilized and recommended that the Ministry periodically measure and report on its achievements.

### **CURRENT STATUS OF RECOMMENDATIONS**

Our recommendation relating to the following has been substantially implemented:

- Benefits Assessment.

However, with respect to our recommendation on the sharing of resources, the Ministry advised us that discussions with the Office of the Registrar General (Ministry of Consumer and Commercial Relations) did not lead to the identification of any opportunities for the sharing of resources. The Ministry is planning to replace the existing technology in 1996 on expiry of the equipment lease and this will provide another opportunity to discuss resource sharing with the Office of the Registrar General. The Student Affairs Branch is also pursuing opportunities for the sharing of resources with other parts of the Ministry of Education and Training.

## **MINISTRY OF ENVIRONMENT AND ENERGY - TRANSFER PAYMENTS UNDER THE ENERGY DEVELOPMENT AND MANAGEMENT PROGRAM - 1993 - SECTION 3.10**

### **BACKGROUND**

The purpose of the Energy Development and Management Program is to expedite the development and introduction of energy technologies, products and practices that increase the effectiveness and efficiency of energy management in the province. Through this program, transfer payments in the form of operating and capital grants were provided for energy research, conservation initiatives, industrial efficiency and energy from waste projects.

In 1993, we assessed whether transfer payments made to increase the effectiveness and efficiency of energy management were in compliance with legislation and the extent to which recipients were held accountable for their use of public funds. Overall, we recommended that criteria and guidelines be established for assessing proposals for grants and that the performance of grant recipients be more appropriately evaluated by the Ministry.

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## CURRENT STATUS OF RECOMMENDATIONS

The Ministry has taken action on most of our recommendations made in 1993. Recommendations relating to the following areas have been substantially implemented:

- Transfer Payment Accountability;
- Assessment of Grant Proposals;
- Reimbursement of Grants; and
- Submission of Audited Financial Information.

With respect to our other recommendation on reporting transfer payment results, the status of the action taken in this area is as follows:

### REPORTING TRANSFER PAYMENT RESULTS

#### Recommendation

*In future annual reports, the Ministry should indicate in its annual report the total benefits achieved by grants and the extent to which they have contributed to the Ministry's overall objectives.*

#### Current Status

The Ministry is working on a plan which will include the establishment of performance indicators for all its programs and the reporting of their contributions towards the Ministry's strategic objectives.

## MINISTRY OF FINANCE - ONTARIO INSURANCE COMMISSION - 1993 - SECTION 3.11

### BACKGROUND

The Ontario Insurance Commission works to build public confidence in the insurance industry through a variety of regulatory activities. We assessed whether the Commission was adequately and cost effectively monitoring the operations of Ontario insurers and was ensuring industry solvency, consumer protection and compliance with legislation. We concluded that the Commission's regulation of Ontario insurers was generally satisfactory.

### CURRENT STATUS OF RECOMMENDATION

The Ministry of Finance and the Commission are still in the process of implementing our recommendation regarding unlicensed insurers.

#### Recommendation

*The Commission, in consultation with the Ministry of Finance and the Registered Insurance Brokers of Ontario (RIBO), should explore methods of developing an effective system for the collection and reporting of premium taxes on insurance placed with unlicensed insurers.*

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## Current Status

The Ministry advised us that an audit of those insurance brokers handling the majority of unlicensed insurance business was jointly conducted by the Ministry's Corporations Tax Branch and the Commission in 1994. The results of the audit indicated that the potential annual revenue loss would not likely exceed \$500,000 as opposed to the possible \$2 million loss initially projected by the Commission.

Since our audit the Commission has convened meetings between the Ministry of Finance and the RIBO in an attempt to resolve this issue. As the Ministry believes that any permanent solution will require legislative amendments, it is presently studying the related legislative and tax policy issues. This study is expected to be completed in the spring of 1996 and will be utilized by the Ministry and the Commission in determining the most appropriate mechanism to resolve this issue.

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## MINISTRY OF HEALTH - ONTARIO HEALTH INSURANCE PLAN - 1993 - SECTION 3.12

### BACKGROUND

The Ontario Health Insurance Plan was established under the *Health Insurance Act*. The Plan pays for insured services by physicians, practitioners (for example, dentists and chiropractors), commercial laboratories, and other diagnostic and therapeutic facilities (health care providers) to residents of Ontario. The Plan also pays for medical and hospital treatment provided in other provinces and outside Canada to residents of Ontario.

In 1993, we assessed compliance with legislation and administrative policies and the adequacy of internal controls pertaining to the processing and payment of claims. The scope of our audit focused on fee-for-service payments to health care providers and commercial laboratories.

### CURRENT STATUS OF RECOMMENDATIONS

Recommendations relating to the following areas have been substantially implemented:

- Action on Referrals to the Medical Review Committee; and
- Parameters of Practice.

With respect to the other recommendations, the status is as follows:

#### MEDICAL REVIEW COMMITTEE

##### Recommendation

*To deter misuse of the system by health care providers, the Ministry should consider sanctions against health care providers whose patterns of practice continue to be undesirable.*

##### Current Status

The Ministry advised us that a Cabinet Submission which makes recommendations for improving the legislative effectiveness of monitoring and recovery activities is currently

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being developed. A discussion of possible sanctions against providers who bill inappropriately will be included in the Submission.

## **INTERNAL CONTROLS**

In 1993 we made recommendations in the following areas: Controls over Corrections for Manual Claims, Fee Schedule Master and Medical Rules, Verification Letters System, Physicians' Monitoring System, and Information Systems Security as follows:

### **Controls over Corrections for Manual Claims**

#### **Recommendations**

*To obtain assurance that appropriate and consistent corrective action is taken on rejected claims:*

- reports summarizing corrections activity should be reviewed on a regular basis and all significant deviations should be promptly investigated;*
- information on the nature and number of claims referred for adjudication should be maintained;*
- an audit trail should be established to record changes made on the On-Line Claims Correction System (OCCS) to original claims data submitted by health care providers; and*
- the identity of the clerk responsible for any changes made on the OCCS should be determinable.*

#### **Current Status**

The Ministry responded positively to our 1993 report. Action has been taken by clarifying assessment codes and reminding staff of their proper use during claims assessment on the OCCS. A report is being produced monthly which enables management to improve operational controls through the review of reports.

The Ministry informed us that, given the nature of the existing system and the complexity of the proposed security changes, additional controls will be incorporated into larger systems redevelopment plans.

### **Fee Schedule Master and Medical Rules**

#### **Recommendation**

*To ensure that payments do not exceed the Schedule of Benefits, new and revised medical rules should apply from the dates they are approved by the Provider Services Branch. Appropriate action should be taken to clear the current backlog of medical rules.*

#### **Current Status**

Corrective action is in process. The Ministry had anticipated that the current backlog would be cleared by the end of the 1993/94 fiscal year. The Ministry has advised us of the following action to clear the backlog:

*A programmer analyst, a quality control tester and two change control analysts were assigned on a full-time basis to work exclusively on medical rule implementation for one year. Internal staff have also increased their time commitment to the project. Thus far in 1995/96, 26 medical rules have been implemented and 6 new changes to medical rules have been identified. There are 48 medical rule changes pending as at July 18, 1995.*

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## **Verification Letters System**

### **Recommendation**

*The effectiveness of the Verification Letters System should be reviewed to ensure that it is addressing the requirement of Section 18 of the Health Insurance Act and the expectations of management. Procedures should also be established for the effective administration of the system as well as to measure and report on whether the results expected of the system are being met.*

### **Current Status**

Corrective action has been implemented to address most of our concerns; however, some aspects are still outstanding. The Ministry has advised us that these will be addressed as part of a technology study.

## **Physicians' Monitoring System**

### **Recommendation**

*The development of a more sophisticated Physicians' Monitoring System (PMS) to better highlight questionable billings should be expedited.*

*The Ministry should consider augmenting the limited means used to detect questionable billings. In particular, the Ministry should review the effectiveness of random audits carried out in other provinces.*

### **Current Status**

A Strategic Plan for monitoring and control has been developed by Queen's University which recommended that the Ministry "upgrade or replace the PMS to improve functionality and remove the most serious limitations. Specifically, modify the system to allow run-anytime mode (instead of annually-only); create data set outputs as well as paper reports, to permit subsequent analysis; allow real-time access to major files in the system."

The Ministry indicated that it is in the process of developing a tender and seeking approval for a technology study to address this issue.

## **Information Systems Security**

### **Recommendation**

*The Ministry should add security measures to ensure that access to confidential information in the Claims Payment Operations systems and related sub-systems is restricted to those persons requiring the information to perform their duties.*

### **Current Status**

Corrective action has been taken to limit access. Access is limited to "read only" and under controlled conditions for programming staff and access is controlled by Resource Access Control Facility. However, other required action will be addressed and incorporated into larger systems redevelopment plans.

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## **FOLLOW-UP OF PRIOR AUDITS**

### **Registered Persons Database and Health Resources Register**

#### **Recommendation**

*The Ministry should develop procedures to maintain the data integrity of the Health Resources Register. These procedures should include a periodic comparison of information in the register with information obtained from the licensing bodies of physicians and practitioners and follow-up on all significant differences.*

#### **Current Status**

Some progress has been made in addressing our recommendation.

#### **Registered Persons Database (RPD)**

Procedures have been added to improve assurance that only eligible persons receive health cards.

The Ministry advised that a Registration Enhancement Project has been initiated. The Ministry intends to implement a number of formal information linkages with other jurisdictions and databases to automate and facilitate the authentication of registration applications and to improve the accuracy and integrity of RPD information on an ongoing basis.

#### **Health Resources Register (HRR)**

- Analysis of the HRR address integrity has been completed;
- "Reasonableness tests" for birth dates have been incorporated in the HRR systems; and
- Processes have been developed to generate residence location codes directly from postal codes, on both the HRR and the Corporate Provider Database, to ensure a standardized, uniform approach to the assignment of residence location codes.

Other action is still in process.

## **MINISTRY OF HEALTH - PUBLIC HEALTH ACTIVITY - 1993 - SECTION 3.13**

### **BACKGROUND**

The delivery of public health programs and services is the responsibility of municipal health agencies. The Public Health Branch of the Ministry of Health is responsible for developing and, to a large extent, funding certain mandatory programs and services.

In 1993, we assessed the Ministry's procedures to ensure value for money for the grants provided to health agencies. We recommended that target dates be established for the implementation of the 1988 Management Board Directive on the accountability of transfer payment recipients. We also recommended that the Ministry make greater efforts to minimize vaccine wastage.

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## CURRENT STATUS OF RECOMMENDATIONS

The recommendation relating to vaccine wastage has been substantially implemented.

Our recommendation relating to accountability is in the process of implementation as follows:

### ACCOUNTABILITY

#### Recommendation

*To ensure that the expenditure of public funds is managed prudently to meet planned objectives and results for effective program delivery, target dates should be established by the Ministry for implementation of the Directive. In addition, to ensure that the procedures will assist in achieving program results, the accountability framework procedures should be reviewed by the Audit Branch of the Ministry before they are implemented.*

#### Current Status

Progress has been made in implementing our recommendation. However, there are certain aspects which are still to be completed. The Ministry advised us that the Public Health Branch has consulted with the Ministry's Audit Branch, in an attempt to develop additional activities to complement the existing accountability framework procedures, and is also continuing to enhance all the accountability elements during the 1995/96 fiscal year.

## MINISTRY OF HEALTH - EQUIPMENT LEASING - 1993 - SECTION 3.14

### BACKGROUND

The leasing of equipment is governed by the Ministry of Health's policies and procedures manual and Management Board of Cabinet Directives.

In 1993, we assessed whether the Ministry leased equipment economically and in accordance with central agency and Ministry policies and procedures.

### CURRENT STATUS OF RECOMMENDATIONS

The Ministry has taken action on all but one of the six recommendations made in 1993. Recommendations relating to the following have been substantially implemented.

- Photocopier Leasing; and
- Four of five recommendations dealing with Air Ambulance Service.

The other Air Ambulance Service recommendation relates to the charging of charter services provided by private-sector operators as either a direct operating expense or as a transfer payment. The status of action taken with respect to this subject is as follows:

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## AIR AMBULANCE SERVICE

### Recommendation

*The Ministry should determine the most appropriate expenditure code and ensure that it is used consistently.*

### Current Status

The Ministry has indicated that the change in contracting from standing offer to contracts is scheduled for the 1995/96 fiscal year. "During this transition the Ministry will consider the appropriateness of the current transfer payments versus direct operating expenditures."

## MINISTRY OF NATURAL RESOURCES - GRANTS TO CONSERVATION AUTHORITIES - 1993 - SECTION 3.15

### BACKGROUND

This audit assessed the Ministry's systems and procedures to ensure that grants to Conservation Authorities were spent economically and in accordance with Ministry requirements. We recommended that the Ministry develop a process for measuring and reporting the effectiveness of the conservation authorities program, that the readiness of projects proposed for funding be scrutinized more thoroughly, and that conservation authorities be required to investigate ways of minimizing their administrative costs.

### CURRENT STATUS OF RECOMMENDATIONS

Progress in implementing some of our recommendations has not been as timely as we would have liked it to be. However, we are pleased to note that the Ministry has taken action on all four of our recommendations made in 1993. Recommendations relating to the following three areas have been substantially implemented.

- Measuring and Reporting on Program Effectiveness;
- Administration of Capital Projects - Capital Project Priority Setting; and
- Capital Project Management - Administrative Costs.

Our recommendation relating to Capital Project Tenders is in the process of implementation as explained further below:

### ADMINISTRATION OF CAPITAL PROJECTS - CAPITAL PROJECT TENDERS

#### Recommendation

*The Ministry should more closely monitor the competitive acquisition process to ensure that authorities receive the best value for funds expended and to promote fair dealings and equitable relationships with potential suppliers.*

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## **Current Status**

The Ministry along with the Association of Conservation Authorities of Ontario (ACAO) is working to address this issue. A committee involving the Ministry, Consulting Engineers of Ontario and the ACAO is developing guidelines to ensure that competitive processes are followed and the process for capital project tenders is streamlined.

Adherence to guidelines will be monitored on an ongoing basis through the operational audit process.

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## **MINISTRY OF THE SOLICITOR GENERAL AND CORRECTIONAL SERVICES - EMERGENCY PLANNING ONTARIO - 1993 - SECTION 3.16**

### **BACKGROUND**

Emergency Planning Ontario (EPO) is responsible for monitoring, co-ordinating and assisting in the formulation and implementation of provincial and ministry emergency plans. It is also responsible for co-ordinating emergency plans with the plans of municipalities and the federal government. We assessed whether EPO had procedures in place to ensure satisfactory monitoring, co-ordinating and implementing plans of emergency preparedness and response in the province. We recommended that measures be taken to more clearly identify program objectives and evaluate results. We also recommended that action be taken to implement nuclear and non-nuclear emergency plans at the provincial and municipal levels.

### **CURRENT STATUS OF RECOMMENDATIONS**

EPO has taken action on all seven of our recommendations. Six of the recommendations covering the following areas have been substantially implemented:

- Program Effectiveness;
- Provincial Emergency Plan (Non-Nuclear);
- Ministry Nuclear Emergency Plans;
- Ministry Emergency Plans (Non-Nuclear);
- Municipal Nuclear Emergency Plans; and
- Nuclear Emergency Plans Practice Exercises.

Our recommendation relating to the Provincial Nuclear Emergency Plan is yet to be implemented as explained further as follows:

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## PROVINCIAL NUCLEAR EMERGENCY PLAN

### Recommendation

*As the proposed revision to the existing Provincial Nuclear Emergency Plan is intended to improve the safety of the people of Ontario, it should be considered for approval by the Solicitor General and, if approved, submitted to Cabinet for its review and approval.*

### Current Status

A submission with respect to the Provincial Nuclear Emergency Plan was considered by the Cabinet Committee on Environmental Policies. However, the Royal Society of Canada has been requested to provide a scientific opinion on two technical issues. Resolution of the issues is considered necessary before the Provincial Nuclear Emergency Plan can be revised and finalized for Cabinet review and approval.

## MINISTRY OF THE SOLICITOR GENERAL AND CORRECTIONAL SERVICES - INSTITUTIONAL SERVICES - 1993 - SECTION 3.17

### BACKGROUND

Institutional Services is responsible for the operation of Ontario's correctional institutions, including jails, detention centres and correction centres. These institutions provide custody for adult offenders sentenced to terms of imprisonment of less than two years and for accused persons awaiting trial or other judicial proceedings. They also provide custody for young offenders between 16 and 17 years of age.

In 1993, we assessed whether the Ministry's institutional resources were managed economically and efficiently and whether the Ministry was measuring and reporting the achievement of its corporate objectives. We recommended that the Ministry reduce its operational costs for Institutional Services by better managing its staffing resources, improving the operational efficiency of its buildings, and working with other ministries to develop more cost-effective alternatives to incarceration for non-violent offenders and those with mental disorders. We also recommended that the Ministry measure and report on its success in meeting the program's stated objectives.

### CURRENT STATUS OF RECOMMENDATIONS

The Ministry has taken action on all seven of the recommendations we made in 1993. Recommendations relating to the following areas have been substantially implemented:

- Short-term Sick-day Usage;
- Inmates with Mental Disorders; and
- Protection and Security.

However, because of the long-term nature or strategic significance of four of our recommendations, action is ongoing in these areas as explained further below:

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## **STAFFING COSTS**

### **Recommendation**

*The Ministry should complete its staffing analysis as soon as possible to determine what action is necessary to reduce staffing costs wherever possible.*

### **Current Status**

The Correctional Services Division of the Ministry has now completed the staffing analysis we recommended for all its correctional institutions. Results of the analysis are being used to examine the necessity of each "post" through a "post audit" at every institution. Redeployment of staff and staffing schedule revisions recommended by the "post audit" are still subject to negotiations between local management and union on an institution by institution basis.

## **IMPACT OF BUILDINGS ON EFFICIENCY**

### **Recommendation**

*The Ministry should determine the extent to which capital investments in new or upgraded facilities would reduce operating expenditures.*

### **Current Status**

After studying the operational efficiency of its facilities, the Ministry closed two of its smaller institutions in July 1994. In the meantime, the Ministry is developing a long range plan for facilities management which includes an institutional rationalization, replacement, and upgrading of Ministry facilities. This plan is currently under review and is expected to be finalized later in 1995.

## **USE OF COMMUNITY PROGRAMS**

### **Recommendation**

*The Ministry should strengthen its efforts to liaise with the judicial system to determine whether community programs could be better utilized.*

### **Current Status**

The Ministry has established an ongoing consultation process and information seminar with provincial division judges regarding sentence administration, community programs and conditional release mechanisms. (The use of community programs is further dealt with under "Short-Term Offenders", in the section dealing with the Ontario Board of Parole in Chapter 3 of this Report.)

## **MOTIVATING OFFENDERS TOWARDS POSITIVE PERSONAL CHANGE**

### **Recommendation**

*Particularly in light of the short stay of provincial inmates, the Ministry should reassess whether recidivism is a viable effectiveness measure. Notwithstanding, the Ministry should ensure it measures and reports on its success in meeting all stated program objectives.*

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## Current Status

The Ministry has completed work on a draft document identifying an overall vision statement and core objectives for the Correctional Services Division and is in the process of reviewing core institutional programs and services. A key component of the initiative includes the development and implementation of two formal evaluation instruments for program effectiveness. A program evaluation instrument and implementation procedures have been developed in draft form and are currently being used on a pilot project basis at several institutions and community locations. Full scale implementation is scheduled to take place in the 1995/96 fiscal year. Currently, the Ministry is conducting research related to recidivism.

# MINISTRY OF THE SOLICITOR GENERAL AND CORRECTIONAL SERVICES - OFFICE OF THE FIRE MARSHAL - 1993 - SECTION 3.18

## BACKGROUND

The Office of the Fire Marshal (OFM) was established to prevent and investigate fires, and to minimize the loss of life and property from fire through the development, administration and enforcement of fire-related legislation. We assessed the Office's procedures to ensure that it was satisfactorily meeting its commitments to provide an environment safe from fire and related public safety hazards. We recommended that the Office develop and use effectiveness measures that are more clearly defined.

## CURRENT STATUS OF RECOMMENDATION

The OFM is in the process of implementing our recommendation.

## PROGRAM EFFECTIVENESS

### Recommendation

*The OFM should develop and use clearly defined program effectiveness measures in order to determine and report on goal achievements.*

### Current Status

Effectiveness measures are now being used to monitor the achievements of the organization's goal of minimizing deaths, injuries and property losses from fire and other public safety hazards. Since 1993, the OFM has implemented a program/activity review process and has completed its review of three individual programs. As part of the review process, a guide for measuring performance was developed to help managers incorporate performance measures into their goal setting, planning and achievement measuring activities for all OFM's programs. Evaluation of program effectiveness will be performed on an ongoing basis and analyzed over time for strategic program decisions, including termination, modification and resource allocation.

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## **MINISTRY OF THE SOLICITOR GENERAL AND CORRECTIONAL SERVICES - ONTARIO MUNICIPAL AND PROVINCIAL POLICE AUTOMATION CO-OPERATIVE - 1993 - SECTION 3.19**

### **BACKGROUND**

The Ontario Municipal and Provincial Police Automation Co-operative (OMPPAC) is an integrated computerized information exchange system developed by the Ministry of the Solicitor General and Correctional Services with assistance from participating municipal police services. The Ministry operates the central computer system, while the OPP and individual municipal police services have access to the central database through terminals and micro computers. We assessed project management and security for this system and recommended that its implementation be accelerated as much as practical.

### **CURRENT STATUS OF RECOMMENDATIONS**

Our recommendations relating to OMPPAC in the following areas have been substantially implemented:

- Implementation of OMPPAC; and
- Linkage with OPP Telecommunications System.

## **WORKERS' COMPENSATION BOARD - OBSERVATIONS ON THE ANNUAL STATUTORY AUDIT - 1993 - SECTION 3.21**

### **BACKGROUND**

The Workers' Compensation Board (Board) raises funds from the province's employers in order to provide compensation to workers who have suffered work-related injuries or who have contracted occupational diseases. Arising from the December 31, 1992 annual audit of the Board's financial statements (performed under our direction by a public accounting firm), it was recommended that:

- management develop a formal framework for the development of a strong system of internal control at the Board, and each division then develop its own accounting procedures and internal controls within the parameters of this overall framework;
- senior management develop a security policy for the development and implementation of an effective computer security and control structure;
- various branches work together to arrive at improved reconciliation procedures and controls over the data used for calculating the benefits liability;
- the Board review appropriate authority levels for the establishment of new subsidiary companies; and
- a strategy to deal with the Board's unfunded liability be developed and implemented as quickly and effectively as possible.

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## CURRENT STATUS OF RECOMMENDATIONS

The recommendation related to appropriate authority levels for the establishment of new subsidiary companies has been implemented. The remaining four recommendations, are in various stages of implementation.

The status of each of these recommendations is explained more fully below.

### INTERNAL CONTROL FRAMEWORK

#### Recommendation

*It was recommended that management develop a formal framework for the development of a strong system of internal control at the Board such that a conscious decision can be made as to which control risks the Board is not willing to take. Management should determine the minimum level of documentation that should be available for each critical business area and make it a priority to develop this documentation. Following this, informed decisions can then be made as to the nature of the risks and the control levels required. Each division will then develop its own accounting procedures and internal controls within the parameters of management's overall control framework.*

*It is important for management to develop an approach to reinforce the importance of control awareness for all personnel on an ongoing basis.*

#### Current Status

Progress has been made by identifying the control framework that must be set in place and through the establishment of a Controllershship function. Additionally, an Internal Control Renewal Steering Committee was established to develop, implement and monitor various elements of the control framework.

At the present time, a timetable for the actual implementation and monitoring of the components of the control framework remains to be put in place.

### COMPUTER CONTROL ENVIRONMENT

#### Recommendation

*In order to develop and implement an effective security and control structure, senior management should develop a security policy which would include a definition of the roles and the accountability of employees, ownership of computer systems and data, and how information should be classified in terms of access. This should be an integral part of the development of a more rigorous system of internal control as recommended in the Internal Control Framework section.*

#### Current Status

An information security policy has been drafted to address both system and computer facilities security at the Board. The policy, which is expected to receive formal approval in the near future, is being implemented.

### BENEFITS LIABILITY

#### Recommendation

*The public accounting firm had concerns about the lack of internal control over and the integrity of the data used for calculating the benefits liability. The primary reason for these problems was the*

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*fact that there existed a lack of understanding as to how the data is accumulated by Client Services into the reports used by the Actuarial Services Branch (ASB) and why the amounts could not be reconciled or validated. It was recommended that Client Services, Accounting, Actuarial Services and Information Systems work together to arrive at improved reconciliation procedures and controls in this area.*

### **Current Status**

During the course of the December 31, 1994 audit, the public accounting firm found that deficiencies continued to exist in the data used to calculate benefit liabilities, although fewer data problems were noted than in the previous year, indicating an improvement in data integrity. Additionally, data used by the actuary did not reconcile with data produced by the accounting department.

The Board has undertaken many projects to address the data integrity issue. A finance database project has also been initiated to establish a database consisting of reconciled and validated information to be used by the ASB and other users. The design of the database has been completed and is expected to be implemented by the end of 1995.

### **NET UNFUNDED LIABILITY**

#### **Recommendation**

*A strategy to deal with the unfunded liability should be developed and implemented as quickly and effectively as possible.*

#### **Current Status**

We have been advised that, following implementation of the new governance structure as set out in Bill 165, one of the first tasks of the new Board of Directors is anticipated to be the development of a new funding strategy. It is also expected that Bill 165 will have significant positive implications for the long-term funding of the system.

In the interim, in support of the Board's strategic plan, the WCB Administration has developed a Financial Improvements Package which is estimated will generate \$485 million annually in cash flow savings. This package, which has been presented to the Board of Directors for approval, is directed by four guiding principles:

- strengthen internal controls and streamline administrative processes;
- accurately identify and target compensation entitlement;
- improve medical and vocational rehabilitation performance; and
- maximize available financial resources.

## **MATTERS OF SIGNIFICANCE EMANATING FROM OUR 1992 ANNUAL REPORT**

Additionally, in the 1993 *Annual Report*, we highlighted the following two programs from our 1992 *Annual Report* because we found corrective action too slow:

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**Health Insurance and Benefits** (expenditures for health care services: 1992/93 = \$5.1 billion, 1994/95 = \$5 billion)

*While Ministry initiatives were underway in late 1993, there was insufficient reasonable assurance that the Ontario Health Card System established in 1990:*

- *ensures that health services are provided only to eligible persons; and*
- *provides an information base to support the formulation of health policies for ensuring that the appropriate level of health services is provided to eligible persons.*

In February 1995, a photo health card was introduced on a pilot basis. In July 1995, this project was put on hold pending a review of various options. We will continue to monitor the Ministry's actions and progress to correct the above deficiencies.

**Non-profit Housing** (operating subsidies excluding capital: 1992/93 = \$0.6 billion, 1994/95 = \$0.78 billion)

*Although the program has operated for many years, practices and procedures are only now being put in place to ensure that the development and allocation of non-profit housing is based on appropriate analyses of need, costs and financial management information.*

*The Public Accounts Committee had originally been advised that operating agreements would be in place in 1993. However, operating agreements for a significant number of existing non-profit housing units were only scheduled to be in place by the end of 1994.*

The result of our follow-up audit on Non-profit Housing is provided in Chapter 3 of this Report.

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## CHAPTER FIVE

# Public Accounts of the Province

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### INTRODUCTION

The *Public Accounts* for each fiscal year ending March 31 are prepared under the direction of the Minister of Finance as required by the *Ministry of Treasury and Economics Act*. The *Public Accounts* comprise the Financial Statements of the Province and three supplementary volumes.

The *Ministry of Treasury and Economics Act* requires that the *Public Accounts* be delivered to the Lieutenant-Governor in Council for presentation to the Assembly not later than the tenth day of the first session held in the following calendar year. However, the *Standing Orders of the Legislative Assembly* call for the tabling of all statutory reports within six months of the close of the reporting period unless reasons for the delay are given to the House. Accordingly, the *Public Accounts* have normally been available for tabling by September 30 of each year. This year's tabling occurred on October 2, 1995, the first working day after September 30.

The Financial Statements of the Province are the responsibility of the Government of Ontario. This responsibility encompasses ensuring the integrity and fairness of the information presented in the statements, including the many amounts which must of necessity be based on estimates and judgment. The government is also responsible for ensuring that an established system of control and supporting procedures is maintained to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Provincial Auditor audits and expresses an opinion on the Financial Statements of the Province. This opinion is intended to provide reasonable assurance that the Financial Statements are free of material misstatement. These Financial Statements, along with the Provincial Auditor's opinion on them, are provided in a separate volume of the *Public Accounts*.

*Volume 1* of the *Public Accounts* provides details of the significant transactions of the Province's Consolidated Revenue Fund (CRF). It includes schedules of the Fund's revenues, expenditures, financing transactions, financial assets, liabilities and contingent liabilities. It also contains the individual statements for each government ministry.

*Volume 2* contains reproductions of the audited Financial Statements of the most significant—in terms of size—agencies of the Crown and of Crown-controlled corporations. For consolidation purposes, these entities are classified as government service organizations,

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government enterprises, or trusts under administration. *Volume 2* also contains certain other audited and unaudited financial statements.

*Volume 3* details each ministry's expenditures, such as salaries and wages, employee benefits, travelling expenses and other payments, under two main categories: Voted Appropriations and Statutory Appropriations.

The Provincial Auditor reviews the information in the three supplementary volumes for consistency with information presented in the Financial Statements.

## THE PROVINCE'S 1994/95 FINANCIAL STATEMENTS

The *Audit Act* requires that I report in my Annual Report on the results of my examination of the Province's Financial Statements as reported in the *Public Accounts of Ontario*. I am pleased to report that my Auditor's Report to the Legislative Assembly on these Financial Statements for the fiscal year ended March 31, 1995 is clear of any qualifications or reservations and reads as follows:

*To the Legislative Assembly of the Province of Ontario*

*I have audited the statement of financial position of the Province of Ontario as at March 31, 1995 and the statements of operations and accumulated deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Government of Ontario. My responsibility is to express an opinion on these financial statements based on my audit.*

*I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation.*

*In my opinion, these financial statements present fairly, in all material respects, the financial position of the Province as at March 31, 1995 and the results of its operations and the changes in its financial position for the year then ended in accordance with accounting principles recommended for governments by The Canadian Institute of Chartered Accountants. As required by Section 12 of the *Audit Act*, I also report that, in my opinion, these accounting principles have been applied, in all material respects, on a basis consistent with that of the preceding year.*

Toronto, Ontario  
September 15, 1995



Erik Peters, FCA  
Provincial Auditor

I am especially pleased to report that the 1994/95 Financial Statements were prepared, consistent with the prior year, in accordance with accounting principles recommended for governments by the Public Sector Accounting and Auditing Board (PSAAB) of The Canadian Institute of Chartered Accountants (CICA). In 1993, I had strongly urged the government to more fully report on the nature and extent of its financial affairs and operations by changing from the modified cash basis of accounting to the accrual and consolidation basis of accounting as recommended by PSAAB. This recommendation was implemented beginning with the fiscal year ended March 31, 1994 and I appreciate the extraordinary efforts of the staff of the Ministry of Finance and my Office in implementing these accounting improvements.

## PUBLIC SECTOR ACCOUNTING AND AUDITING BOARD

PSAAB was established in 1981 by the Board of Governors of the CICA. As part of its mandate, PSAAB makes recommendations intended to improve and harmonize financial reporting, accounting and auditing in the public sector in Canada. These recommendations are contained in the CICA's *Public Sector Accounting and Auditing Handbook*.

PSAAB's recommendations represent the consensus of senior government financial officials, legislative auditors and other experts in public sector accounting across Canada on minimum requirements for financial statement accounting and reporting practices for governments. Like Ontario, most other provinces and the federal government have also adopted the PSAAB basis of accounting for their financial statements.

## KEY FEATURES OF THE PSAAB BASIS OF ACCOUNTING

Prior to fiscal 1993/94, the Province's Financial Statements disclosed the financial position and operating results of the Consolidated Revenue Fund only. As such, the Financial Statements were designed to provide an accounting of the financial resources appropriated by the Legislature by reporting only the actual cash inflows or outflows of government ministries. As well, under the Consolidated Revenue Fund concept, the activities of Crown agencies were reported only to the extent to which their operations had been financed from, or contributed to, the Consolidated Revenue Fund.

The PSAAB basis of accounting (PSAAB rules) which was adopted beginning with the 1993/94 financial statements results in a fairer presentation of the Province's financial position and results of its operations. There are two primary reasons for this:

- 1) **Accrual accounting:** Under PSAAB rules, revenues and expenditures are accrued or recorded in the period in which the revenues have been earned or the expenditures incurred, regardless of whether or not such transactions have been settled by the receipt or payment of cash. On the other hand, the modified cash basis of accounting, which was previously used, permitted the payment and recording of expenditures in such a way that they were not necessarily reflected in the period to which they pertained.

For instance, in fiscal 1994/95 as a result of an agreement negotiated between the government and the Ontario Public Sector Employees Union (OPSEU), the government was able to take a temporary "pension holiday" from making contributions to the OPSEU pension plan. As well, the government took a temporary holiday from making contributions to the Public Service Pension Plan. The government stated that these contribution holidays related primarily to the utilization of accumulated "pension savings" resulting from actual plan performance exceeding actuarial projections. As a

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result, cash pension contributions payments of only \$41 million were made during the year which, under the cash basis of accounting, would have been the only charge affecting the deficit for the year.

However, under the accrual basis of accounting used in the Financial Statements, the government's additional financial responsibility for its share of government employee pension costs earned by those employees, but not funded during the year, of \$338 million was recorded as an expense. In determining this amount, an appropriate portion of the "pension savings" referred to above was taken into account. In addition, the government extended its early retirement option during the year. While the \$303 million cost of this enhancement was not funded during the year, under PSAAB rules it was also appropriately recorded as an expense for the year. As a result, the deficit reported in the audited Financial Statements was \$641 million higher than that which would have been reported under the cash basis of accounting.

- 2) **Consolidation of Crown agencies and corporations:** The trend towards having government programs delivered by Crown agencies and corporations instead of directly by government ministries has intensified over the past few years. For instance, the *Capital Investment Plan Act, 1993*, established four new Crown agencies which have assumed a number of operational activities previously conducted by various ministries. For more information, see the comment on capital investment corporations in this chapter.

Under the previously used Consolidated Revenue Fund concept, the operations of Crown agencies are only included to the extent to which they have been financed from, or contributed to, the Consolidated Revenue Fund. Under PSAAB rules, the activities of Crown agencies owned or controlled by the government are included in the Financial Statements on the basis of the nature of their activities as follows:

- Government Service Organizations (such as the Ontario Cancer Treatment and Research Foundation and the Ontario Educational Communications Authority [TVOntario]) are included fully on a line-by-line basis;
- Government Enterprises (such as the LCBO and the Ontario Lottery Corporation) are included as investments in Government Enterprises to the extent of the Province's equity in them; and
- Regulated trusts or regulated entities which are funded from sources outside the government (such as the Public Trustee of Ontario, the Workers' Compensation Board and Ontario Hydro) are excluded and their relationship to the government is explained in notes to the financial statements.

Because of their unique nature and size, further discussion is warranted of the treatment in the audited Financial Statements of two of the largest agencies of the Province: Ontario Hydro and the Workers' Compensation Board. By virtue of the *Power Corporation Act*, Ontario Hydro's earnings and net assets (equity) are neither intended nor available for distribution to the Province. Similarly, under the *Workers' Compensation Act*, funding of the Board's liabilities, including its large unfunded workers' benefits liability, is a future financial obligation of private-sector employers and not of the government. Accordingly, these agencies' operations, while disclosed in the notes, have not otherwise been included in the Province's Financial Statements.

Essentially, the overall objective of PSAAB rules is to enable governments to produce Financial Statements using accounting principles and practices that provide a clearer and

fuller understanding of the financial position and results of operation of the government. We believe such improved reporting assists the Legislature in holding the government more fully accountable for the complete range of its financial activities.

## RECONCILING THE BUDGETARY DEFICIT TO THE ACTUAL DEFICIT

The Province's Financial Statements were prepared in accordance with the recommendations of PSAAB. Accordingly, the deficit as reported in the Financial Statements includes not only the Consolidated Revenue Fund results but also revenues earned but not yet received and expenditures incurred but not yet paid. Additionally, the operations of significant government agencies and enterprises are included where appropriate.

Under the budget basis of accounting used in determining the deficit for budget purposes, only the results of the Consolidated Revenue Fund, which have been prepared using the modified cash basis of accounting, are included. Schedule 12 of the Financial Statements reports that the actual deficit under the budget basis of accounting was \$8.030 billion, and under the PSAAB basis of accounting it was \$10.129 billion. That schedule explains the \$2.099 billion difference as being due to accrual and consolidation accounting adjustments. However, had the modified cash basis of accounting been appropriately followed in the *Budget*, the budgetary deficit would have been reported as \$9.840 billion or about \$1.8 billion higher with the actual accounting adjustments required to report the deficit under PSAAB rules netting out to \$289 million.

The components making up this \$1.8 billion understatement are summarized in items 1 to 3 in the following table, while items 4 to 8 in the table describe the PSAAB accrual and consolidation accounting adjustments.

		(\$ Millions)
<b>Unaudited actual CRF deficit, budget basis of accounting, as reported:</b>		<b>8,030</b>
Add:		
1) Capital grants treated as loans		
• Universities, school boards, health facilities, municipalities, and other	778	
• Transit authorities	324	
• Capital investment corporation operations	481	1,583
2) Internal transfer of government properties		250
3) Other items		(23)
		<u>1,810</u>
<b>Realistic unaudited actual CRF deficit, modified cash basis of accounting</b>		<b>9,840</b>
Significant accounting adjustments:		
4) Revenue accruals	(974)	
5) Pension accruals	718	
6) Inclusion of Government Service Organizations and Enterprises	(210)	
7) Public debt interest	160	
8) Others (net)	595	
Net impact of accounting adjustments		<u>289</u>
<b>Audited deficit as reported in the financial statements</b>		<b><u>10,129</u></b>

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## EXPLANATIONS OF ADJUSTMENTS MADE

### 1) CAPITAL GRANTS TREATED AS LOANS - \$1.583 BILLION

In accordance with the 1994/95 *Budget*, the government, through the CRF and using the Province's capital investment corporations as intermediaries, provided "loans" of \$1.583 billion to a number of entities for capital projects which are, in fact, grants (expenses) of the CRF.

Universities, School Boards, Hospitals, Municipalities, and Other - \$778 Million

These grants were provided by the CRF to the Ontario Financing Authority and then channelled directly to a transfer recipient, or to a transfer recipient using another capital investment corporation as a further intermediary, as follows:

- Through the Ontario Financing Authority, \$564 million was provided to universities, colleges, school boards and health and other facilities.
- Through the Ontario Financing Authority and the Ontario Clean Water Agency, \$214 million was provided to municipalities.

Agreements have been entered into with all of these entities whereby the Province will annually be providing the "funds" required to repay these "loans." Therefore, in essence, the repayment of these loans is being financed through future appropriations from the CRF.

The Public Sector Accounting and Auditing Board (PSAAB) recommends that "when a direct relationship can be established between the repayment of a loan and a government's funding to the borrower, the portion of the loan that is expected to be recovered from future appropriations should be accounted for as an expenditure." In the case of these loans, the entire \$778 million should have been treated as expenditure, rather than as loans receivable. The PSAAB recommendation applied in the Financial Statements in the Public Accounts is intended to ensure that substance prevails over form.

Transit Authorities - \$324 Million

Similar to the foregoing, the CRF, through the Ontario Financing Authority and the Ontario Transportation Capital Corporation, provided \$324 million to transit authorities for capital purposes. \$250 million was provided to local transit authorities and \$74 million to the Toronto Area Transit Operating Authority, another Crown agency. However, in the case of these "loans," there are in fact no agreements in place with the recipient transit authorities requiring the amounts to be repaid; they are therefore, in effect, grants.

Capital Investment Corporation Operations - \$481 Million

In addition to the above transactions, the CRF, through the Ontario Financing Authority, made net advances of \$361 million to the Ontario Transportation Capital Corporation and \$120 million to the Ontario Realty Corporation to finance improvements to non-toll highways and the cost of government properties purchased, respectively. Funds required to repay these loans will be obtained through future grants from the CRF or the dedication of revenue which otherwise would have been transferred into the CRF. Since the Province has essentially assumed these obligations, these advances totalling \$481 million should have been treated as expenditures.

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## 2) TRANSFER OF GOVERNMENT PROPERTIES - \$250 MILLION

During the year, the Province transferred a number of government buildings and properties under construction to the Ontario Realty Corporation (a wholly owned Crown agency). A loan was provided by the Ontario Financing Authority to finance this sale, and the CRF recognized \$250 million as revenue to the Province. This related party transaction created no new inflow of cash, but simply offsetting loans receivable and payable in the records of the Province and the Ontario Realty Corporation.

In Chapter Four of our *Annual Report* for each of the last two years, I have urged that the concept of substance over form as recommended by PSAAB be considered when accounting for such transactions. Substance over form requires that transactions be accounted for and presented in accordance with their financial reality. Since the Ontario Realty Corporation is a wholly-owned Crown agency, no real revenue has been earned by the Province, and the transferred buildings are still being held within the government as a whole.

To the extent that these office buildings are not resold or leased to third parties external to the government, in substance there is no sales revenue, but only an internal government paper transfer of beneficial ownership.

## 3) OTHER ITEMS - (\$23 MILLION)

There were a number of other less significant items totalling \$23 million which were also not accounted for in accordance with their financial reality. They included operating grants treated as loans and other transfers and payments between the CRF and the Capital Investment Corporations.

## 4) REVENUE ACCRUALS - (\$974 MILLION)

Revenue accruals represent taxes and other revenues owed to the Province but not yet collected. The two major accruals related to personal income taxes of \$414 and corporation taxes of \$420. Accruals of other taxes and receivables totalled \$140.

## 5) PENSION ACCRUALS - \$718 MILLION

The portion of the accrued pension benefits earned by plan members for which the Province is responsible totalled \$1.325 billion. However, the government's payments to the plans this year amounted to \$566 million for the Teachers Pension Plan and \$41 million for the OPSEU and Public Service Pension plans. Consequently, the difference of \$718 million was accrued.

## 6) INCLUSION OF GOVERNMENT SERVICE ORGANIZATIONS AND ENTERPRISES - (\$210 MILLION)

This adjustment reflects the impact of including the net operating results of government service organizations and enterprises. Schedule 12 to the Financial Statements indicates that the net impact on the deficit for both enterprises and organizations combined was \$1.600 billion. However, after removing the effect of the \$1.810 billion in questionable transactions discussed earlier, the true impact is an improvement in the deficit position of \$210 million. The major contributor to this was the Ontario Casino Corporation which retained profits of \$103 million in the Corporation to finance future operations.

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## 7) PUBLIC DEBT INTEREST - \$160 MILLION

This adjustment relates primarily to year-end accrual increases of interest payable on Ontario's Canadian and foreign-held debt.

## 8) OTHERS - \$595 MILLION

This relates primarily to a number of expenditure accruals. The largest ones related to the ministries of Municipal Affairs and Housing (\$114 million) and Community and Social Services (\$97 million) as well increases in the allowance for doubtful accounts relating to various tax and other receivables.

# OTHER COMMENTS ON FINANCIAL STATEMENTS

## CAPITAL INVESTMENT CORPORATIONS

### Loan-Based Financing

The primary objective of the *Capital Investment Plan Act, 1993* was to provide for the Province and municipalities, and other public bodies and the private sector to work together in making significant investments in the province's infrastructure. To achieve this, the Act established four new Crown agencies, the Ontario Financing Authority (OFA); the Ontario Transportation Capital Corporation (OTCC); the Ontario Clean Water Agency (OCWA); and the Ontario Realty Corporation (ORC).

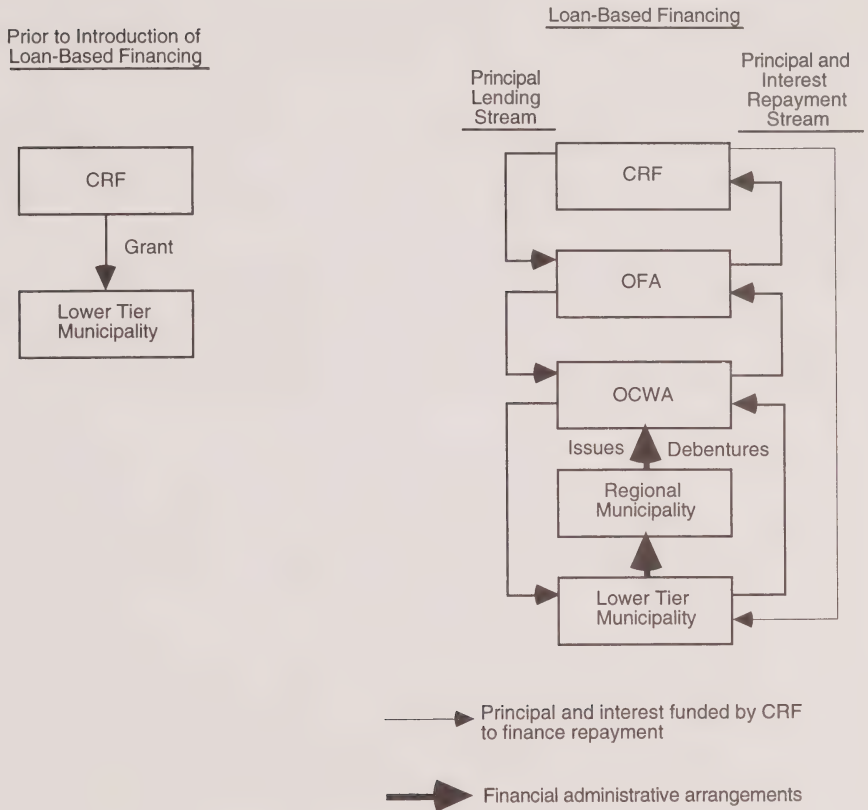
In accordance with the fiscal 1993/94 and 1994/95 budgets, the government, through the Consolidated Revenue Fund (CRF) and using the four agencies as intermediaries, provided loans for a number of major capital projects which in the past would have been treated as grants (expenses) by the CRF. As at March 31, 1995, the net amounts advanced through the Ontario Financing Authority, to universities, colleges, school boards and hospitals amounted to \$1.1 billion. As at March 31, 1995, an additional \$479.1 million had been provided to provincial transit authorities through the OFA and the OTCC. Finally, \$280.1 million had been provided to municipalities through the OFA and OCWA as at March 31, 1995.

Agreements have been entered into with all these entities whereby the Province will be providing them with the funds required to repay these loans. Therefore, in essence, the repayment of these loans is being financed through future annual appropriations from the CRF. Consequently, in the audited Financial Statements, these loans have been treated as grants (expenses) in the fiscal year in which they are made.

In our view, these loans, which are in reality provincial grants, have created, and will continue to create, significant administrative overhead for the Province, its agencies and the recipient organizations.

The additional complexities imposed as a result of this method of loan-based financing can best be illustrated using the example of the Province advancing funds to a lower tier municipality within a regional municipality under the Municipal Assistance Program (MAP). Under this scenario, the regional municipality has to issue debentures on behalf of the lower tier municipality. The following chart illustrates the financial transactions.

## Municipal Assistance Program



As illustrated, the granting of money—which previously was a relatively straightforward transaction involving two parties—has now become unnecessarily complicated, involving separate financial administrative arrangements between five parties. Consequently, additional resources are required to administer the loan agreements, and account for the principal and interest repayments over the 20-year terms of the loans.

In our opinion, there appears to be no additional benefits to any of the parties under the present method of loan-based financing. The creation of the additional overhead is particularly questionable in these times when all levels of government should strive to be

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more efficient. We were advised in October 1995 that the practice of loan-based financing is under review by the government.

### Economic Dependence - Ontario Realty Corporation

In accordance with the *Capital Investment Plan Act, 1993*, the primary objective of the Ontario Realty Corporation (ORC) is to provide the Government of Ontario, its programs and others, with services and financing related to real property and improvements to real property.

A significant part of ORC's business involves the developing and selling of surplus government real estate assets. These assets were acquired from the Government of Ontario in fiscal 1992/93 for \$440.2 million. This acquisition was financed by a loan of \$350 million and contributed surplus of \$90.2 million from the Ministry of Finance. As at March 31, 1995, the value of these assets was \$416.0 million

From the date the assets were acquired to March 31, 1995, sales have totalled \$47.8 million. Due to inadequate cash flows from the sale of these assets during this period, ORC has had to rely on infusions from the government totalling \$44.7 million to cover land development costs and much of its interest expenses. We believe that, at the present level of revenue from sources external to the government, ORC will continue to be heavily economically dependent on the government.

### CAPITAL ASSETS

The accounting principles for governments recommended by PSAAB generally follow the practices recommended by the Canadian Institute of Chartered Accountants for businesses in Canada, except for the accounting treatment related to an organization's investment in physical capital assets.

Generally accepted practice for businesses in Canada is to record investments in physical assets as an asset on the Statement of Financial Position and to amortize this capital investment as an annual charge to operations over the expected life of the asset. Current practice in Canadian governments, including Ontario, is to charge the full cost of capital asset purchases to operations in the year of purchase or construction. In this practice, the full cost of the asset is charged in the year it was acquired rather than spreading the cost over the life of the asset.

PSAAB is presently in the process of studying this issue and both the government and my Office are awaiting the results of PSAAB's deliberations. We recognize the valuable contribution that capital assets acquired, developed or constructed by the government make to the Province and look forward to consultation on this matter to assist in ensuring that appropriate business practices, systems and procedures are in place to manage, control and account for these assets.

### OTHER RECOMMENDATIONS FOR IMPROVEMENT

Although the audit of the Province's Financial Statements was not designed to identify all weaknesses in internal controls, nor to provide assurances on financial systems and procedures as such, we did note a number of areas during the audit where we believe improvements could be made. These areas, along with our accompanying recommendations for improve-

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ment, have been brought to the attention of the Ministry of Finance. None of these matters affects the fairness of the Financial Statements of the Province.

## IMPROVED FINANCIAL INFORMATION REQUIRED IN BUDGET

Historically, the government presents a budget each year, usually in the spring. The *Budget* is an annual financial plan which outlines in general terms the government's fiscal plan for the forthcoming year along with details on expected revenues and planned expenditures. As the *Budget* is a fiscal policy document, I recognize that I should not, nor do I want to, audit it nor comment on government policy decisions outlined in the *Budget*.

Very few government documents have the potential to affect the lives of Ontarians more profoundly than the *Budget*. As well, most of the key financial decisions made by the legislators are based on the financial information contained in the *Budget*. It is also used by the government as a management tool for both planning and control. The *Budget* should also serve as a cornerstone in the Legislature's ability to hold the government accountable for its fiscal management by enabling a realistic comparison between planned and actual financial performance. For all these reasons, it is absolutely essential that the financial information contained in the *Budget* be based on the same accounting rules and financial discipline as is used in the Financial Statements in the *Public Accounts*.

## APPEARANCE BEFORE STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

While the Province's Financial Statements are prepared in accordance with PSAAB rules, the Province's *Budget* is not prepared using that basis of accounting and financial discipline. PSAAB rules specifically recommend that a government's fiscal plan be prepared on the same basis as that used to report the actual results.

It is with regard to this issue that I appeared before the Standing Committee on Finance and Economic Affairs on February 6, 1995. In my presentation to the Committee I expressed my concern that the financial information presented to the legislators with the *Budget* needed to be improved. Specifically, I urged the Ministry of Finance to adopt the same basis of accounting and financial discipline to prepare the *Budget* as is used in the Province's Financial Statements.

Of particular concern is the need to put an end to the confusion that exists regarding the difference between the deficit figures as reported under the method of accounting used in the *Budget* and the deficit figures as reported in the Province's audited Financial Statements. For instance, the fiscal 1994/95 deficit reported in the Financial Statements was \$10.129 billion, which was more than \$2 billion higher than the deficit of \$8.030 billion reported using the *Budget* basis of accounting. Similarly, in fiscal 1993/94 the audited Financial Statements reflected a deficit of \$10.848 billion while the budgetary deficit was reported as \$9.278 billion.

This confusing state of affairs should not be allowed to continue. I believe that adopting the PSAAB rules for the *Budget* would remedy the problem and help restore credibility to the financial affairs of the government. A partial step in the right direction was taken by the government in the 1995 Budget Plan, which included a *Comparison of Budget Presentation to Public Accounts Presentation*.

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I am pleased to note that a further positive step in this direction was taken by the new government with its release of the *Ontario Fiscal Overview and Spending Cuts* document on July 21, 1995. This document appropriately treats loans being financed through future appropriations as grants (expenses) in its projections of the deficit for the 1995/96 fiscal year.

On July 27, 1995 the Minister of Finance announced the establishment of the Ontario Financial Review Commission to review the financial practices of the government "in order to restore credibility and confidence in the reporting of the financial position of the Province." The Minister specifically asked the Commission to examine and report on:

*the desirability of adopting Public Sector Accounting and Auditing Board accounting standards, currently used in the preparation of the summary financial statements, in the Estimates and Budget.*

## ANNUAL FINANCIAL REPORT NEEDED

### AN ANNUAL FINANCIAL REPORT WOULD ENHANCE ACCOUNTABILITY

One of the primary purposes of a budget is to enable subsequent comparison of actual results achieved with those budgeted. From the perspective of a government, this provides it with the opportunity—and some would argue the responsibility—to explain how the government has managed its tax dollars.

In the private sector, the annual audited financial statements for publicly traded corporations are accompanied by a financial report. This report consists of an easily understandable analysis and management commentary on the financial and operational results for the year. The objective is to provide the shareholders with an accounting of management's performance during the year.

An annual financial report of this nature would also serve as a useful accountability document for the Legislature as well as the general public. Reports of this nature are already being produced by the federal and Alberta governments. In Ontario, the last year such a report was prepared was in 1989 when a Financial Report was produced by the then Treasurer of Ontario. This report provided an overview of Ontario's economy and an analysis of revenues, expenditure, debt and other financial and economic statistics and included the audited Financial Statements of the Province.

### WHAT SHOULD BE INCLUDED

As a start, the following five components should be considered for inclusion in any annual financial report:

#### 1. Overview of Ontario's Economy

One of the most critical factors affecting Ontario's fiscal performance is the state of the Ontario economy. For instance, in times of recession, not only do taxation revenues generally decline but certain program expenditures such as welfare and family allowance benefits increase. In assessing the government's fiscal management performance it is important that the impact of the state of the economy on this performance is analysed and explained.

## 2. Success in Meeting the Budgeted Deficit Target

In the last few years there has been a general concern about the ability of the Province to cope with continually high annual deficits. There appears to be a consensus by all political parties as well as an acceptance by the general public that our current level of deficits is unacceptable and must be reduced.

The setting of a target for the projected deficit in the annual *Budget* thus serves as a key fiscal accountability measure. The success of the government in meeting the budgeted deficit should be analysed and reasons provided where the actual deficit is different than that projected in the *Budget*.

## 3. Analysis of Ontario's Debtload

The debilitating impact of public debt resulting from deficits has been much discussed and is well known. However, while the Financial Statements disclose the total outstanding debt, this in itself does not provide the legislators or the general public with sufficient information to gauge the Province's capacity to carry debt. However, there are a number of indicators which, when presented in a graphical context over time, would provide additional information. For instance:

- Ontario's debt per capita;
- debt as a percentage of the Ontario's Gross Domestic Product (GDP);
- percentage of revenues needed to pay the interest on the debt (interest bite);
- total tax revenues as a percentage of GDP (tax bite); and
- total expenditures as a percentage of total revenues.

## 4. Analysis of Significant Revenue and Expenditure Variances

The government should explain how the differences arose when actual revenues and expenditures are significantly different than those projected in the *Budget*. For instance, in the 1994/95 fiscal year, actual revenues on the cash basis of accounting exceeded total budgeted revenues by \$447 million. The following table illustrates the more significant components accounting for the increase.

<u>Revenue</u>	<u>(\$ Billions)</u>
<b>Budgeted revenue</b>	<b>45.140</b>
Revenues exceeding (less than) Budget	
Retail sales tax	.426
Corporations tax	.357
Federal Established Programs Financing	.307
Personal Income tax	(.466)
Asset sales/refinancing	(.322)
Others (net)	.145
<b>Actual revenue received</b>	<b>45.587</b>

On the expenditure side, in fiscal 1994/95, actual expenditures on the cash basis of accounting of \$53.617 billion were very close to budgeted operating and capital expenditures totalling \$53.688 billion. While actual "capital" expenditures were in line with budgeted "capital" expenditures, as the following table shows, on the operating side there were several significant fluctuations at the individual program level.

<b>Expenditure</b>	<b>(\$ Billions)</b>
<b>Budgeted expenditures</b>	<b>53.688</b>
Costs exceeding (less than) Budget	
OHIP payments to doctors	.222
Social assistance	(.090)
Municipal/charitable homes for the aged	.090
Agricultural crop support	(.067)
Others/constraints (net)	(.226)
<b>Actual expenditure payments</b>	<b>53.617</b>

## 5. The Financial Statements with the Auditor's Report

The audited Financial Statements provide the reader with additional details on the financial position and the results of the Province's operations for the fiscal year.

I urge the Ministry of Finance to take a leadership role in developing and publishing an annual financial report within which the audited Financial Statements would form an integral part. I believe that such a report would result in improved financial information for the decision makers in the Legislature and for the general public.

# THE CONSOLIDATED REVENUE FUND — AUTHORIZED AND ACTUAL PAYMENTS

## AUTHORIZED PAYMENTS

All public monies received and expenditures made are channelled through the Consolidated Revenue Fund. Expenditures from the Fund are of two major types: those specified by the *Estimates* (including *Supplementary Estimates*) and approved by the Legislative Assembly, and those specified under the provisions of various statutes. The former are termed payments from Voted Appropriations and the latter are termed payments from Statutory Appropriations. Payments from a particular Voted Appropriation may be increased by a Treasury Board Order. Special Warrants are another type of payment from the Consolidated Revenue Fund which may be authorized under certain conditions by Orders-in-Council. The nature of these four expenditure approval mechanisms is more fully explained below.

## VOTED APPROPRIATIONS

Prior to the passage of the *Supply Act*, the Legislature authorizes payments out of the Consolidated Revenue Fund by means of motions of interim supply. For the 1994/95 fiscal year, the time periods covered by the motions of interim supply and the dates the motions were agreed to by the Legislature were as follows:

- April 1, 1994 to July 31, 1994 - passed March 31, 1994
- August 1, 1994 to December 31, 1994 - passed June 23, 1994

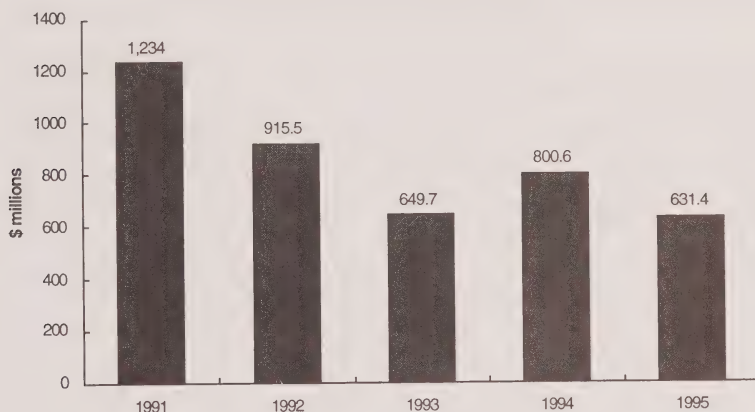
When the Legislature approves the *Supply Act*, the annual estimated expenditures (*Estimates* and *Supplementary Estimates*) are formalized as Voted Appropriations. The *Supply Act*, 1994, pertaining to the fiscal year ended March 31, 1995, received Royal Assent on December 9, 1994.

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## TREASURY BOARD ORDERS

Section 8 of the *Treasury Board Act* allows the Treasury Board to make an order authorizing payments to supplement the amount of any Voted Appropriation which is insufficient to carry out the purpose for which it was made, provided the amount of the increase is offset by a corresponding reduction of expenditures from other Voted Appropriations. The order may be made at any time before the first day of May following the end of the fiscal year in which the supplemented appropriation was made.

The following chart is a summary of Treasury Board Orders issued for the past five years:



Treasury Board Orders for the 1994/95 fiscal year summarized by month of issue are as follows:

Month of Issue	Number	Authorized \$
June 1994 - February 1995	8	33,789,000
March 1995	11	90,891,300
April 1995	14	506,735,500
	<u>33</u>	<u>631,415,800</u>

In accordance with a Standing Order of the Legislative Assembly, the preceding Treasury Board Orders have been listed in *The Ontario Gazette*, together with explanatory information. A detailed listing of Treasury Board Orders, showing the amounts authorized and expended, is included as Exhibit Five of this Report, as required by the *Audit Act*.

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## SPECIAL WARRANTS

As previously indicated, motions of interim supply adopted by the Legislature are the usual means of authorizing payments from the Consolidated Revenue Fund prior to the passage of the *Supply Act*. However, when the Legislature is not in session, Section 7 of the *Treasury Board Act* provides for the issue of a Special Warrant authorizing the expenditure of money for which there is no appropriation by the Legislature. The authorized amount is to be paid out of the Consolidated Revenue Fund as specified in the Special Warrant. Special Warrants are authorized by Orders in Council approved by the Lieutenant-Governor on the recommendation of the government.

As the two motions of interim supply covered the period from the start of the fiscal year to the passage of the *Supply Act*, no Special Warrants were required during the 1994/95 fiscal year.

## STATUTORY APPROPRIATIONS

Payments out of the Consolidated Revenue Fund relating to Statutory Appropriations represent those where the specific authority to spend is expressly contained in a statute of the Legislature. No further specific approval is required as the spending authority continues indefinitely until the statute is amended or repealed.

For the information of the Legislature, the government notes in the annual *Estimates* the amount expected to be spent in accordance with the authority given in the various statutes. However, if spending on Statutory Appropriations exceeds the expected amount, no Treasury Board Order is required.

## COMPARISON OF AUTHORIZED AND ACTUAL CRF PAYMENTS

The comparison for the fiscal year ended March 31, 1995 is as follows:

Appropriations	Authorized (\$ millions)	Actual (\$ millions)
Voted per Legislative Assembly Estimates	46,175	44,531
Approved by Treasury Board Treasury Board Orders	<u>631</u>	<u>605</u>
	46,806	45,136
Statutory Appropriations	<u>8,621</u> *	<u>13,015</u>
	<u>55,427</u>	<u>58,151</u>
*Expected expenditures		

Actual Statutory Appropriations exceeded the expected Statutory Appropriations as specified in the *Estimates* by approximately \$4.4 billion. The excess resulted primarily from two payments which were not included in the *Estimates* but which were paid pursuant to the provisions of various statutes.

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They are:

- (i) loan-based financing provided outside the CRF by the Ontario Financing Authority, primarily to the Capital Investment Corporations, universities, schools, colleges and hospitals, totalling \$2.0 billion; and
- (ii) net loan retirements totalling \$2.3 billion.

## UNCOLLECTABLE ACCOUNTS

Under Section 5 of the *Financial Administration Act*, the Lieutenant-Governor in Council, on the recommendation of the Minister of Finance, may delete from the accounts any amount due to the Crown deemed uncollectable. The losses deleted from the accounts during any fiscal year are to be reported in the *Public Accounts*.

### 1994/95 WRITE-OFFS

A total of \$189.5 million was written off in the 1994/95 fiscal year (in 1993/94 the amount was \$101.4 million), as indicated on page 3-94 of Volume 2 of the *Public Accounts*. The major portion of these write-offs related to the following:

- \$66.5 million relating to the write-down of a loan to a private-sector company;
- \$49.4 million for unpaid taxes relating to the *Retail Sales Tax Act* and the *Corporations Tax Act*;
- \$28.8 million for uncollectable loans made by the Development Corporations to their clients or to the clients of ministries while acting as their agent;
- \$15.5 million in uncollectable claims and judgments pertaining to the Motor Vehicle Accident Claims Fund;
- \$9.1 million pertaining to uncollectable overpayments under the *Family Benefits Act* and the *General Welfare Act*; and
- \$7.4 million in uncollectable fines, costs and fees owed to Provincial Courts.

## TRANSFERS AUTHORIZED BY THE BOARD OF INTERNAL ECONOMY

When the Board of Internal Economy authorizes the transfer of monies from one item of the *Estimates* of the Office of the Assembly to another item within the same Vote, Section 91 of the *Legislative Assembly Act* requires the Provincial Auditor to make special mention of the transfer(s) in the *Annual Report*. In respect of the 1994/95 expenditure estimates, no such transfers were made relating to the Office of the Assembly.

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## CHAPTER SIX

# The Office of the Provincial Auditor

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### MISSION STATEMENT

Our mission is to report to the Legislative Assembly objective information and recommendations resulting from our independent audit activities of the government's programs, its Crown agencies and corporations. In doing so, the Office assists the Legislature in holding the government and its administrators accountable for the quality of the administration's stewardship of public funds and for the achievement of value for money in government operations.

We audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund, the financial statements of the Province and the accounts of agencies of the Crown. Our responsibilities are set out in the *Audit Act* (Exhibit 6 in this Report).

The Office thus fulfils its mission by conducting value for money, attest and compliance audits and by presenting this *Annual Report* to the Legislative Assembly. We also assist and advise the Standing Committee on Public Accounts in its review of the *Public Accounts* of the Province and the *Annual Report* of the Provincial Auditor.

### INDEPENDENCE

The Provincial Auditor is appointed as an officer of the Legislative Assembly by the Lieutenant Governor in Council on the address of the Assembly. This is done after consultation with the Chair of the Standing Committee on Public Accounts on the recommendation of the Committee. The Provincial Auditor and staff of the Office are independent of the government and its administration. We have access to all relevant information and records necessary to the performance of our duties under the *Audit Act*. Our independence is a safeguard which enables the Office to fulfil its auditing and reporting responsibilities objectively and fairly. The Provincial Auditor is accountable to the public through the Legislative Assembly.

The Board of Internal Economy, an all-party legislative committee independent of the government's administrative process, approves our budget and staffing. As required by the *Audit Act*, the Office's expenditures relating to the 1994/95 fiscal year have been audited by a firm of chartered accountants appointed by the Board and are presented at the end of this chapter. The audited statement of expenditure is submitted annually to the Board of Internal Economy and tabled in the Assembly in the fall session.

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## AUDIT RESPONSIBILITIES

### PRIMARY RESPONSIBILITY

The primary responsibility of the Office is to audit the administration of government programs and activities, as carried out by ministries and agencies of the Crown under government policies.

Our audit responsibilities do not extend to government policy matters. The Office audits neither government policies nor information contained in Cabinet documents used in policy deliberations or decisions. The government is held accountable for policy matters by the Legislature, which continually monitors and challenges government policies and programs through questions in the Legislature and reviews of legislation and expenditure estimates.

### ACCOUNTS OF THE PROVINCE AND MINISTRIES

The Provincial Auditor, per subsection 9(1) of the *Audit Act*, is required to audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise. To this end, the Office carries out an annual attest audit to enable the Provincial Auditor to express an opinion on the Province's summary financial statements and carries out cyclical value for money audits. Exhibit 1 in this Report lists the value for money audits conducted in 1994/95.

### AGENCIES OF THE CROWN AND CROWN CONTROLLED CORPORATIONS

The Provincial Auditor, per subsection 9(2) of the *Audit Act*, is required to audit those agencies of the Crown that are not audited by another auditor. Exhibit 2, part (i), lists the agencies audited for the 1994/95 fiscal year. Public accounting firms are currently contracted by our Office to audit the financial statements of several of these agencies on our behalf.

Exhibit 2, part (ii), and Exhibit 3 list the agencies of the Crown and Crown controlled corporations audited by public accounting firms for the 1994/95 fiscal year. Subsection 9(2) of the *Audit Act* requires public accounting firms who are appointed auditors of agencies of the Crown to audit under the direction of, and report to, the Provincial Auditor. Under subsection 9(3) of the Act, public accounting firms auditing Crown controlled corporations are required to deliver a copy of the audited financial statements to the Provincial Auditor, as well as a copy of their findings and recommendations to management (management letter).

### ADDITIONAL AUDIT RESPONSIBILITIES

Under section 16 of the *Audit Act*, the Provincial Auditor may, by resolution of the Standing Committee on Public Accounts, be required to examine and report on any matter respecting the Public Accounts.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by either the Assembly, the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister of the Crown. However, these special assignments are not to take precedence over the Auditor's other duties. The Provincial Auditor can

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decline an assignment referred by a minister if, in the opinion of the Auditor, it conflicts with other duties.

## AUDIT ACTIVITIES

### TYPES OF AUDITS

Value for money, compliance and attest audits are the three main types of audits carried out by the Office. All such audits are performed in accordance with generally accepted auditing standards. In addition, inspection audits of selected transfer payment recipients may be conducted under section 13 of the *Audit Act*. A brief description of each of these audit categories follows.

#### VALUE FOR MONEY

Subsection 12(2) of the *Audit Act* requires the Office to report on any cases observed where money was spent without due regard to economy or efficiency, or where appropriate procedures were not taken to measure and report on the effectiveness of programs. This value for money mandate is exercised with respect to various ministry and Crown agency programs and activities. The Office does not have a mandate under the *Audit Act* to conduct value for money audits of transfer payment recipients, but may assess the steps taken by a ministry/agency to satisfy itself that funds provided to organizations are well managed.

It is not part of the Office's mandate to evaluate the effectiveness of programs or develop standards to measure the efficiency of program delivery, as these functions are the responsibility of the ministry/agency management. The Office is only responsible for assessing the extent to which these functions have been carried out by management.

#### COMPLIANCE

Compliance audits are carried out in ministries and Crown agencies in order to assess whether transactions and other aspects of operations are in compliance with legislative and administrative requirements. The Office generally conducts such audit work in conjunction with our value for money and attest auditing.

#### ATTEST

Attest (financial) audits are designed to permit the expression of a professional opinion on a set of financial statements. The opinion states whether the operations and financial position of the entity have been fairly presented in compliance with appropriate accounting policies. The Office conducts attest audits of the summary financial statements of the Province and of various Crown agencies on an annual basis.

#### INSPECTION AUDITS OF TRANSFER PAYMENT RECIPIENTS

Transfer payments to organizations such as hospitals, universities, school boards, municipalities and thousands of smaller organizations amount to approximately 51% of total government expenditures, and are subject to inspection audits. An inspection audit is defined in the *Audit Act* as an examination of accounting records. Although value for money observations may arise as a by-product of such audits, the audits are not value for money oriented, because only accounting records can be examined in inspection audits.

The Office may, where circumstances warrant the extension of a ministry or agency audit, conduct inspection audits of transfer payment recipients. In the past, the Office has carried out inspection audit activity of major recipients of transfer payments, specifically community colleges, universities, hospitals and school boards. However, in recent years, the Office has deferred major inspection audit activity pending consideration of a proposal to amend the *Audit Act* to permit the Office to access all records and information necessary to perform full scope audits, including value for money, of transfer payment recipients. Further details and background on the subject of amendments to the *Audit Act* are provided in Chapter 7 - in the section entitled "Status of Committee Recommendation Respecting Amendments to the *Audit Act*".

Transfer payments are also made to individuals under a variety of programs, such as OHIP or family benefit allowances. Such individuals are not, and should not be, subject to direct audit by the Provincial Auditor.

## **SCHEDULING OF AUDIT ACTIVITIES**

### **MINISTRY AUDITS**

All major ministry programs are considered for audit over a five-year cycle. These cyclical audits are primarily value for money oriented and include major information systems related to the program. They deal specifically with the administration of programs and activities by management.

Various factors are considered in rating the priority of an audit. The factors considered are: total expenditures, last time audited and results of previous cyclical audits, and work completed or planned by internal audit. Risk assessments are also carried out to determine whether a program should be audited. In assessing the various risk factors, including the impact of a program on the public, we attempt to determine the possible matters of significance which may result from auditing a program. The following are major factors considered in planning each audit:

- mandate under the *Audit Act*;
- clarity of management's objectives and goals;
- availability of information or evidence required;
- availability of appropriate audit methodology for the subject/issue;
- estimated costs, benefit and duration of an audit; and
- complexity/diversity of operations.

The amount of work done by ministry and agency internal auditors and the breadth of its scope can have a major impact on the timing, frequency and extent of our audit activity. By having access to internal audit work plans, working papers and reports, the Office is able to avoid duplication of effort by relying, to the extent possible, on internal audit activities.

### **AGENCY AUDITS**

Agencies of the Crown are audited annually as required by legislation. While value for money observations may arise during these audits, the Office also periodically performs more in-depth value for money audits at selected agencies.

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## SPECIAL ASSIGNMENTS

The Office may undertake special assignments at ministries and their agencies as requested by the Legislature, the Standing Committee on Public Accounts or a minister of the Crown. These audits are scheduled as resources permit.

## REPORTING ACTIVITIES

### MINISTRY AUDITS

Our draft reports and management letters are considered to be an integral part of our audit working papers and, according to section 19 of the *Audit Act*, are not required to be laid before the Assembly or any of its committees.

The Office prepares a preliminary draft report for discussion and factual clearance as each audit is completed. The preliminary draft report is discussed with senior ministry officials and revised, as necessary, to reflect the results of the discussion. All draft reports are also reviewed with the respective deputy minister and contain the ministry response. Following clearance of the preliminary draft report and the Ministry response at the deputy minister level, a final draft report is prepared and issued to the deputy minister and, where deemed necessary, to the minister. We also provide a copy of all final draft reports to the Secretary of Management Board of Cabinet. These final draft audit reports form the basis for the preparation of our *Annual Report* to the Legislative Assembly.

### AGENCY AUDITS

With respect to attest audits of agencies, agency legislation normally stipulates that the Provincial Auditor's reporting responsibilities are to the agency's board and the minister responsible. Also, we provide copies of the audit opinions and of the related agency financial statements to the Secretary of Management Board of Cabinet, as well as to the deputy minister of the associated ministry.

In instances where matters which require improvements by management have been noted during the course of an agency attest audit, a draft management letter is prepared and discussed with senior management and revised, as necessary, to reflect the results of the discussion. The draft management letter is also reviewed with the agency's chief executive officer and contains management's response. Following clearance of the draft management letter and the response of the agency's senior management, a final management letter is prepared and, if deemed necessary, issued to the agency head (chair). Depending on the significance of the content of the management letter, a copy of it may also be forwarded to the minister and deputy minister of the associated ministry and to the Secretary of the Management Board of Cabinet. Matters of significance contained in the management letter may also be included in the Provincial Auditor's *Annual Report* to the Legislative Assembly.

### SPECIAL ASSIGNMENTS

Under sections 16 and 17 of the *Audit Act*, the Office has additional reporting responsibilities relating to special assignments for the Legislative Assembly, the Standing Committee on Public Accounts or a Minister of the Crown. At the conclusion of such work, the Provincial Auditor normally reports to the initiating authority of the assignment.

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During the period of audit activity (October 1994 to September 1995) covered by this Report, the Provincial Auditor was asked to undertake the following special assignments:

- At the request of the Minister of Finance, to be Special Advisor to the Ontario Financial Review Commission which was set up to provide advice on the province's financial practices and reporting. The Commission is required to report to the Minister by October 31, 1995.
- At the request of the Minister of Labour, the Office has undertaken an audit of various operational aspects of the Workplace Health and Safety Agency. Our report on the audit will be submitted to the Minister by November 30, 1995.

## ANNUAL REPORT

With each *Annual Report*, we identify areas where improvements can be made to the economy, efficiency and effectiveness of government operations. Our audit observations are accompanied by recommendations for improvement and, wherever possible, we attempt to provide quantitative indicators of the significance of the observations.

To ensure that our recommendations receive timely attention, we have also instituted more in-depth follow-up reviews on the progress of action plans to address our audit observations and recommendations and to report on their status two years after the audit is reported. Commencing with this *Annual Report*, a detailed account is provided in Chapter Four of the current status of recommendations made in the 1993 *Annual Report*.

## OFFICE ORGANIZATION AND PERSONNEL

The Office organization consists of management teams, each of which is headed by a Director responsible for the audits of a sizeable portfolio. Audit managers are assigned to portfolios. The composition of the portfolios attempts to align somewhat related audit entities and to foster expertise in the various areas of audit activity. The portfolio Directors, the Director of Human Resources, the Assistant Provincial Auditor and the Provincial Auditor, make up the Office's Executive Steering Committee (ESC). The executive management of the Office as at September 30, 1995 consisted of:

Erik Peters, FCA	- Provincial Auditor
Ken Leishman, CA	- Assistant Provincial Auditor
Jim McCarter, CA	- Executive Director, Finance, Revenue, Public Accounts and General Government Portfolio
Walter Bordne, CA	- Director, Community and Social Services Portfolio
Andrew Cheung, CA	- Director, Justice and Regulatory Portfolio
Gerard Fitzmaurice, CA	- Director, Economic Development Portfolio
John McDowell, CA	- Director, Crown Agencies, Corporations, Boards and Commissions Portfolio
Nick Mishchenko, CMA	- Director, Health Portfolio
Gary Peall, CA	- Director, Education and Training, and Municipal Affairs and Housing Portfolio
Dan Gordon	- Director, Human Resources

The audit managers, together with the members of the ESC, constitute the Office's Resource Planning and Allocation Committee. All audit staff below the level of audit manager are assigned to audits from an audit staff pool.

The most important resource of the Office is our staff. The 1994/95 approved budget of the Office provided for 95 funded staff positions after complying with the requirements of the Social Contract.

The Office has downsized significantly in the past five years, while maintaining high quality and productivity during this period of restraint. In terms of funded full-time equivalents (FTEs), the downsizing can be summarized as follows:

<u>Fiscal Year</u>	<u>Funded FTEs</u>	<u>FTE Reduction</u>
1990/91	115	
1991/92	108	7 - Voluntary reduction to
1992/93	101	7 meet financial constraints
1993/94	95	6 - Social Contract
1994/95	95	" "
		<u>20</u>

As shown in the above table the number of funded staffing positions has declined by 20 from 1990/91 levels. This downsizing has taken place at a time when the complexities of government financial and program activities subject to audit by this Office continue to increase. For example, during 1994/95, the Office undertook new statutory audits of four sizable Capital Investment Corporations.

It would be detrimental for the effectiveness of the Office to absorb any further staffing reductions. The impact of further budgetary reductions could lead to increasing our already extended audit cycles and a general decrease in the number of audits we can carry out.

The automation of various aspects of the audit process together with improved audit methodology have contributed greatly to maintaining an efficient operation. As in previous years, the Office continues to run a much leaner operation than all other legislative audit offices in Canada as illustrated in the following table.

<u>1994-95</u>	<u>Ontario</u> \$	<u>Quebec</u> \$	<u>British Columbia</u> \$	<u>Alberta</u> \$
Budgeted Expenditure	55 billion	43 billion	20 billion	14 billion
Audit Office Budgeted Expenditure	8 million	14 million	8 million	10 million

Under the current fiscal climate of restraint and the potential for downsizing of governmental operations, the results of the work of this Office can and do assist in improving the efficiency, productivity and cost effectiveness in the public service.

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## CODE OF PROFESSIONAL CONDUCT

The Office has a *Code of Professional Conduct* to encourage staff to maintain high professional standards and ensure a professional work environment. It is intended to be a general statement of philosophy, principles and rules regarding conduct for employees of the Office, who have a duty to conduct themselves in a professional manner and to strive to achieve the highest standards of behaviour, competence and integrity in their work. The Code provides the reasoning for these expectations and further describes the Office's responsibilities to the Legislative Assembly, the public and our audit entities. The Code also provides guidance on disclosure requirements and the steps to be taken to avoid conflict of interest situations.

## CANADIAN CONFERENCE OF LEGISLATIVE AUDITORS

The twenty-third annual meeting of the Conference of Legislative Auditors was held in Ottawa, Ontario from September 10 to 12, 1995. This annual gathering, bringing together legislative auditors from the federal government and the provinces, provides a useful forum for sharing ideas and exchanging information important to the work of the legislative auditing community.

This year's conference, attended by the Provincial Auditor, the Assistant Provincial Auditor and other staff, covered such topics as:

- the amount of evidence needed to provide assurance;
- accounting for and reporting capital property;
- research study on financial indicators and trends in the public sector;
- reporting by legislative auditors on the subject of government debt;
- how to measure the performance of legislative audit offices; and
- update and discussion of activities of the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants.

## ACKNOWLEDGEMENTS

### EXTERNAL ADVISORY COMMITTEE

The external Advisory Committee periodically reviews the Office's audit approach, analyzes the Office profile, and provides advice relating to sensitive audit issues. The Committee meets at the call of the Provincial Auditor.

The Committee's members combine the independence of current association with the private sector with extensive knowledge of the parliamentary system and the function of government. The current members are Messrs. Rendall Dick, LSM; David Knight, FCA; Robert Lord, FCA; Ron Moore, FCA; and David Wilson, FCA. Messrs. Knight and Lord have also been appointed to the Ontario Financial Review Commission and have suspended their membership on the Advisory Committee for the term of the Commission.

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## AUDITEES AND STAFF

The Provincial Auditor expresses his sincere appreciation to the officials of ministries, agencies and other entities for their co-operation in providing our staff with all the information and explanations required during the performance of the Office's audit work.

A special appreciation is extended to the staff of the Office for their dedication, competence and the professional manner in which they have carried out their duties.

## OFFICE EXPENDITURE

The following is the 1995 audited Statement of Expenditure for the Office.

Office of the Provincial Auditor  
Statement of Expenditure  
For the Year Ended March 31, 1995

	1995		1994	
	Actual (\$000s)	Estimates (\$000s)	Actual (\$000s)	Estimates (\$000s)
Salaries and wages (note 2)	4,562	5,120	5,001	5,113
Employee benefits (note 3)	718	1,125	1,095	990
Transportation and communication	193	292	212	344
Services	1,379	1,300	1,367	1,341
Supplies and equipment	103	71	77	70
Transfer payments - Canadian Comprehensive Auditing Foundation	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>
	7,005	7,958	7,802	7,908
The Audit Act	<u>139</u>	<u>188</u>	<u>156</u>	<u>188</u>
	7,144	8,146	7,958	8,096

### Notes:

1. *Accounting Policy*

*The statement of expenditure has been prepared using a modified cash basis of accounting which allows for an additional 30 days to pay for goods and services received during the fiscal year just ended.*

2. *Social Contract*

*The 1995 Estimates for salaries and wages have been reduced by \$235,300 (1994 - \$242,000) to reflect the requirements of the Social Contract.*

3. *Pension Plan*

*The Office provides pension benefits for its employees through participation in the Public Service Pension Fund (PSPF) established by the Province of Ontario.*

*The Ontario Public Service Employees' Union Pension Act, 1994 provides for a reduction of the employer's contributions to the PSPF for each of the three fiscal years ending 1995-97. For the current fiscal year, the impact of these reductions on the Office's pension expense was a reduction of \$429,200.*

*The Office's contribution related to the PSPF for the year was \$118,856 (1994 - \$503,366) and is included in Employee benefits.*

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## Auditors' Report

TO THE BOARD OF INTERNAL ECONOMY  
THE PROVINCE OF ONTARIO

We have audited the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1995. This statement is the responsibility of the organization's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation.

In our opinion, this statement presents fairly, in all material respects, the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1995 in accordance with the accounting policy referred to in note 1 to the statement.

Toronto, Ontario  
August 4, 1995

ALLEN & MILES  
CHARTERED ACCOUNTANTS

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## CHAPTER SEVEN

# The Standing Committee on Public Accounts

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### APPOINTMENT AND COMPOSITION OF THE COMMITTEE

The Standing Orders of the Legislative Assembly provide for the appointment of an all-party Standing Committee on Public Accounts for each session of the Legislature.

The membership of the Committee is approximately proportional to the respective party membership in the Legislature. All members are entitled to vote on motions with the exception of the Chair, whose vote is restricted to the breaking of a tie.

In accordance with the Standing Orders, a Standing Committee on Public Accounts was appointed on April 20, 1993, soon after the commencement of the Third Session of the Thirty-fifth Parliament. The activities of the Committee effectively came to an end with the prorogation of the Third Session of the Thirty-fifth Parliament on December 8, 1994. The House was not reconvened for a Fourth Session, but was dissolved on April 28, 1995. The membership of the Committee at prorogation was as follows:

Joseph Cordiano, Chair, Liberal  
Dianne Poole, Vice-Chair, Liberal  
Gilles Bisson, New Democrat  
Robert Callahan, Liberal  
Bruce Crozier, Liberal  
Robert Frankford, New Democrat  
Rosario Marchese, New Democrat  
Margaret Marland, Progressive Conservative  
Shelley Martel, New Democrat  
Larry O'Connor, New Democrat  
Anthony Perruzza, New Democrat  
David Tilson, Progressive Conservative

The Committee will be reconstituted upon commencement of the Thirty-sixth Parliament.

### ROLE OF THE COMMITTEE

The Committee examines, assesses and reports to the Legislature on a number of issues, including the economy and efficiency of government operations; the effectiveness of programs in achieving their objectives; controls over assets, expenditures and the assessment

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and collection of revenues; and the reliability and appropriateness of information in the *Public Accounts*.

In fulfilling this role, the Committee reviews and reports to the Assembly its observations, opinions and recommendations on selected matters in the *Annual Report* of the Provincial Auditor, Special Reports by the Provincial Auditor and the Provincial Auditor's Report on the Public Accounts. These documents are deemed to have been permanently referred to the Committee as soon as they are tabled.

## PROVINCIAL AUDITOR'S ROLE IN THE PROCESS

The Provincial Auditor assists the Committee by providing appropriate audit information for use by the Committee in its scrutiny of government programs and financial activities.

Additionally, the Provincial Auditor and senior staff attend Committee meetings to assist the Committee in planning its agenda and during its review of the Public Accounts and the *Annual Report* of the Provincial Auditor.

## COMMITTEE PROCEDURES AND OPERATIONS

### GENERAL

The Committee meets on Thursday mornings when the Legislature is sitting. The Committee has, in the past, also met more frequently during the summer and winter when the Legislature has not been sitting. However, the Committee was not authorized by the Assembly to meet during the inter-session period, following the prorogation of the House on December 8, 1994. All meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of Committee reports.

At meetings dealing with ministry operations, the deputy minister, usually accompanied by senior ministry officials, answers questions raised by Committee members. Since the Committee is concerned with administrative rather than policy matters, ministers rarely attend. When the Committee is reviewing Crown agencies, the chief executive officer and, at times, the chair of the board attend the meetings. They are usually accompanied by senior agency staff.

### MEETINGS HELD

From October 1994 to December 8, 1994 the Committee met regularly on its designated meeting day. The Committee's work during this period included:

- reviews of the following subjects from the Provincial Auditor's 1994 *Annual Report*:
  - Municipal Allowances and Benefits, Ministry of Community and Social Services; and
  - Improvements to the Accounting Principles in the Province's Financial Statements, Ministry of Finance.
- discussions concerning amending the *Audit Act* to broaden the Provincial Auditor's mandate in respect of inspection audits of recipients of government grants; and
- organizing the Committee's agenda.

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## REQUESTS FOR SPECIAL AUDITS

During the October 1994 to December 8, 1994 period, the Committee did not pass any motions under the sections 16 and 17 provisions of the *Audit Act*.

## COMMITTEE PROCEDURES

In recent years the Committee has adopted the following procedures and approaches to increase its effectiveness:

- in-depth briefings and preparation;
- fact-finding hearings;
- more frequent reporting to the Legislature;
- when practical, the inclusion of ministry responses in Committee reports;
- increased follow-up of Committee recommendations; and
- site visits to discuss concerns and obtain first-hand knowledge of everyday working conditions in the field.

The Committee also follows up in writing with those ministries and Crown agencies not selected for detailed review by the Committee on their plans and timetable to address the concerns raised in the Provincial Auditor's *Annual Report*. This innovation allows the auditee to update the Committee on activities since the completion of the audit, such as any initiatives taken to address the Provincial Auditor's recommendations.

## REPORTS OF THE COMMITTEE

### GENERAL

The Committee issues its reports to the Legislature. Each report consists of a précis of the information reviewed by the Committee during its meetings, together with its comments and recommendations.

All reports are available through the Clerk of the Committee, thus affording public access to full details of Committee deliberations.

### COMPLETED COMMITTEE REPORTS

During the October 1994 to December 8, 1994 period, the Committee submitted the following reports to the Legislative Assembly:

- Report on Child and Family Intervention Program and Young Offender Services;
- Report on Special Education;
- Report on Curriculum Development;
- Report on Institutional Services; and
- 1992/93 Biennial Report.

### FOLLOW-UP OF RECOMMENDATIONS MADE BY THE COMMITTEE

The Clerk of the Committee is responsible for following up the actions taken by ministries or agencies on the Committee's recommendations. Our Office confers with the Clerk to ascertain the status of the recommendations and would bring any significant matters to the attention of the Legislature in our Annual Reports.

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## STATUS OF COMMITTEE RECOMMENDATION RESPECTING AMENDMENTS TO THE *AUDIT ACT*

As mentioned in our 1994 *Annual Report*, the Committee unanimously passed the following resolution on May 12, 1994 with respect to the *Audit Act*:

*That the Standing Committee on Public Accounts recommends to the Minister of Finance that public hearings be held to consider amendments to the Audit Act, including increasing the Provincial Auditor's scope of value for money audits to include payments to transfer [payment] recipients, and that this be done without delay.*

In anticipation of the Public Accounts Committee's involvement in the proposed public consultation process, on December 8, 1994 the Provincial Auditor made a presentation to the Committee on the need to amend the *Audit Act*. The Committee continued to express its support for the Office's views and concerns respecting the current limitations of the scope of inspection audits under the *Audit Act*. However, with the prorogation of the House on December 8, 1994 and no authority for the Committee to continue during the inter-session to hold public hearings on the subject; and the subsequent dissolution of the House on April 28, 1995, the proposed amendments to the *Audit Act* currently remain in abeyance.

This Office will be pursuing the subject of amendments to the *Audit Act* with the new Public Accounts Committee during the First Session of the Thirty-sixth Parliament.

## OTHER COMMITTEE ACTIVITIES

### CANADIAN COUNCIL OF PUBLIC ACCOUNTS COMMITTEES (CCPAC)

The Council consists of delegations representing federal, provincial and territorial public accounts committees from across Canada. The Council normally meets at the same time and place as the annual Conference of Legislative Auditors (COLA) to discuss issues of current interest. The annual CCPAC and COLA meetings also permits the delegations to participate in a joint session to discuss subjects of mutual interest to politicians and legislative auditors. The seventeenth annual meeting of the Council was scheduled for Ottawa, Ontario from September 10 to 12, 1995. However, due to the uncertainty about the level of representation of public accounts committees, caused in part by general elections in several provinces, the 1995 meeting of the Council was cancelled.

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## EXHIBIT ONE

# Value for Money Audits Conducted in 1994/95

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### MINISTRY OF COMMUNITY AND SOCIAL SERVICES

- Child Care Activity
- Facilities for People with Developmental Disabilities

### MINISTRY OF CONSUMER AND COMMERCIAL RELATIONS

- Business Division
- Elevating Devices Program

### MINISTRY OF ECONOMIC DEVELOPMENT, TRADE AND TOURISM

- jobsOntario Community Action Program

### MINISTRY OF FINANCE

- Gasoline, Diesel Fuel and Tobacco Taxes
- Retail Sales Tax

### MINISTRY OF HEALTH

- Land Ambulance Services
- Residential Services Activity
- Private and Hospital Laboratories and Specimen Collection Centres

### MANAGEMENT BOARD SECRETARIAT

- CORPAY (Corporate Payroll System)
- Inventory of Information Technology Assets

### MINISTRY OF MUNICIPAL AFFAIRS AND HOUSING

- Municipal Affairs
- Non-Profit Housing

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## **MINISTRY OF NATURAL RESOURCES**

- Aviation, Flood and Fire Management Activity

## **MINISTRY OF NORTHERN DEVELOPMENT AND MINES**

- Northern Ontario Heritage Fund Corporation

## **MINISTRY OF THE SOLICITOR GENERAL AND CORRECTIONAL SERVICES**

- Community Services Activity
- The Ontario Board of Parole

## **MINISTRY OF TRANSPORTATION**

- Quality and Standards Activity

# Agencies of the Crown

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## (I) AGENCIES WHOSE ACCOUNTS ARE AUDITED BY THE PROVINCIAL AUDITOR

Advocacy Commission

Agricultural Rehabilitation and Development Directorate of Ontario

Alcoholism and Drug Addiction Research Foundation

Algonquin Forestry Authority

Centennial Centre of Science and Technology

Commission on Election Finances

Crop Insurance Commission of Ontario

Eastern Ontario Development Corporation

Egg Fund Board (December 31), Fund for Egg Producers

*Election Act* - Election Fees and Expenses

Environmental Compensation Corporation

Grain Financial Protection Board, Funds for Producers of Grain Corn and Soybeans,  
Fund for Producers of Canola

Innovation Ontario Corporation

Interim Gross Revenue Insurance Plan Program Account

Interim Waste Authority Ltd.

Legal Aid Fund, Law Society of Upper Canada

Liquor Control Board of Ontario

Livestock Financial Protection Board, Fund for Livestock Producers

Northern Ontario Development Corporation

Northern Ontario Heritage Fund Corporation

Office of the Assembly

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Office of the Environmental Commissioner  
Office of the Information and Privacy Commissioner  
Office of the Official Guardian  
Office of the Ombudsman  
Ontario Aerospace Corporation  
Ontario Agricultural Museum  
Ontario Cancer Treatment and Research Foundation  
Ontario Clean Water Agency (December 31)  
Ontario Development Corporation  
Ontario Educational Communications Authority  
Ontario Farm Products Marketing Commission, Fund for Milk and Cream Producers  
Ontario Film Development Corporation  
Ontario Financing Authority  
Ontario Food Terminal Board  
Ontario Heritage Foundation  
Ontario Housing Corporation (December 31)  
Ontario International Trade Corporation  
Ontario Junior Farmer Establishment Loan Corporation  
Ontario Lottery Corporation  
Ontario Northland Transportation Commission (December 31)  
Ontario Place Corporation  
Ontario Racing Commission  
Ontario Realty Corporation  
Ontario Stock Yards Board (June 30)  
Ontario Training and Adjustment Board  
Ontario Transportation Capital Corporation  
Ontario Waste Management Corporation  
Pension Commission of Ontario  
Police Complaints Commissioner

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Processing-Vegetable Financial Protection Board, Fund for Producers of Vegetables for Processing

Province of Ontario Council for the Arts

Provincial Judges Pension Fund, Provincial Judges Pension Board

Public Sector Job Security Fund, Public Sector Labour Market and Productivity Commission

Public Trustee of the Province of Ontario

Rent Review Hearings Board

Superannuation Adjustment Fund

Tobacco Diversification Fund, Tobacco Diversification Committee

## **(II) AGENCIES WHOSE ACCOUNTS ARE AUDITED BY ANOTHER AUDITOR UNDER THE DIRECTION OF THE PROVINCIAL AUDITOR**

Board of Community Mental Health Clinic, Guelph

Clarke Institute of Psychiatry

Niagara Parks Commission (October 31)

Ontario Cancer Institute

Ontario Mental Health Foundation

St. Clair Parkway Commission (December 31)

St. Lawrence Parks Commission

Toronto Area Transit Operating Authority

Workers' Compensation Board (December 31)

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### NOTES:

1. Dates in parentheses indicate fiscal periods ending on a date other than March 31.
2. Changes during the 1995 fiscal year:  
*Newly Established Agencies of the Crown:*
  - Advocacy Commission*Deletions:*
  - Ontario Industrial Training Institute
  - Ontario Training Corporation
  - Potato Financial Protection Board, Fund for Producers of Potatoes for Processing

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3. Inactive agencies as at March 31, 1995:
- Farm Income Stabilization Commission of Ontario
  - North Pickering Development Corporation
  - Ontario Deposit Insurance Corporation
  - Ontario Telephone Development Corporation

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## EXHIBIT THREE

# Crown Controlled Corporations

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**CORPORATIONS WHOSE ACCOUNTS ARE AUDITED BY AN AUDITOR OTHER THAN THE PROVINCIAL AUDITOR, WITH FULL ACCESS BY THE PROVINCIAL AUDITOR TO AUDIT REPORTS, WORKING PAPERS, AND OTHER RELATED DOCUMENTS**

Board of Funeral Services  
Board of Governors of The Ontario Institute for Studies in Education  
Brock University Foundation  
Carleton University Foundation  
Corporation of the Improvement District of Gauthier  
Corporation of the Improvement District of Matachewan  
Deposit Insurance Corporation of Ontario  
Foundation at Queen's University at Kingston  
Lakehead University Foundation  
Laurentian University of Sudbury Foundation  
McMaster University Foundation  
McMichael Canadian Art Collection  
Metropolitan Toronto Convention Centre Corporation  
Moosonee Development Area Board  
Nipissing University Foundation  
Ontario Casino Corporation  
Ontario Centre for Resource Machinery Technology  
Ontario Cream Producers' Marketing Board  
Ontario Energy Corporation  
Ontario Investment Service Inc.

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Ontario Historical Studies Series  
Ontario Hydro  
Ontario Milk Marketing Board  
Ontario Mortgage Corporation  
Ontario Municipal Employees Retirement Board  
Ontario Pension Board  
Ontario Teachers' Pension Plan Board  
Ontario Transportation Development Corporation  
Ontario Trillium Foundation  
Ortech Corporation  
Ottawa Congress Centre  
Royal Ontario Museum  
Ryerson Polytechnic University Foundation  
Science North  
Stadium Corporation of Ontario Limited  
Teranet Land Information Services Inc.  
Thunder Bay Ski Jumps Limited  
Toronto Islands Residential Community Trust Corporation  
Travel Industry Compensation Fund Corporation  
Trent University Foundation  
University of Guelph Foundation  
University of Ottawa Foundation  
University of Toronto Foundation  
University of Waterloo Foundation  
University of Western Ontario Foundation  
University of Windsor Foundation  
Urban Transportation Development Corporation Limited  
Waterfront Regeneration Trust Agency  
Wilfrid Laurier University Foundation  
York University Foundation

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NOTE:

Changes during the 1995 fiscal year:

*Newly Established Crown controlled corporations:*

- Laurentian University of Sudbury Foundation
- Ontario Investment Service Inc.
- Ryerson Polytechnic University Foundation
- Travel Industry Compensation Fund Corporation
- University of Ottawa Foundation
- University of Western Ontario Foundation

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## EXHIBIT FOUR

# Treasury Board Orders

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### AMOUNTS AUTHORIZED AND EXPENDED THEREUNDER YEAR ENDED MARCH 31, 1995

Ministry	Date of Order	Authorized	Expended
		\$	\$
Agriculture, Food and Rural Affairs	Apr. 11, 1995	<u>2,000,000</u>	<u>1,411,932</u>
Attorney General	Dec. 13, 1994	107,000	106,822
	Jan. 31, 1995	3,493,000	3,493,000
	Mar. 7, 1995	2,600,000	2,473,450
	Mar. 21, 1995	5,424,200	5,424,050
	Apr. 11, 1995	<u>1,514,800</u>	<u>1,514,590</u>
		<u>13,139,000</u>	<u>13,011,912</u>
Citizenship	Apr. 4, 1995	<u>741,200</u>	<u>600,596</u>
Community and Social Services	Apr. 11, 1995	<u>5,392,700</u>	<u>4,024,788</u>
Consumer and Commercial Relations	Feb. 14, 1995	1,634,100	1,334,549
	Mar. 21, 1995	<u>103,600</u>	<u>13,296</u>
		<u>1,737,700</u>	<u>1,347,845</u>
Culture, Tourism and Recreation	Apr. 11, 1995	<u>10,649,200</u>	<u>9,885,463</u>
Economic Development and Trade	Apr. 11, 1995	<u>2,983,500</u>	<u>1,602,091</u>

Ministry	Date of Order	Authorized	Expended
		\$	\$
Education and Training	Nov. 15, 1994	894,100	894,100
	Mar. 7, 1995	707,900	698,723
	Apr. 4, 1995	<u>15,320,400</u>	<u>10,418,383</u>
		<u>16,922,400</u>	<u>12,011,206</u>
Environment and Energy	Mar. 7, 1995	4,600,000	4,585,135
	Apr. 11, 1995	<u>7,850,900</u>	<u>7,678,826</u>
		<u>12,450,900</u>	<u>12,263,961</u>
Finance	Mar. 7, 1995	<u>2,172,800</u>	<u>1,790,932</u>
Health	Mar. 7, 1995	53,243,000	52,737,953
	Mar. 21, 1995	13,714,900	13,714,900
	Apr. 4, 1995	<u>292,871,400</u>	<u>282,965,805</u>
		<u>359,829,300</u>	<u>349,418,658</u>
Housing	Apr. 11, 1995	<u>7,272,700</u>	<u>6,402,877</u>
Management Board Secretariat	Apr. 4, 1995	<u>12,699,200</u>	<u>11,339,209</u>
Municipal Affairs	Apr. 11, 1995	120,169,600	120,047,783
	Apr. 25, 1995	<u>25,937,000</u>	<u>25,679,155</u>
		<u>146,106,600</u>	<u>145,726,938</u>
Ontario Native Affairs Secretariat	Jun. 14, 1994	2,820,000	2,820,000
	Nov. 29, 1994	<u>500,000</u>	<u>416,000</u>
		<u>3,320,000</u>	<u>3,236,000</u>
Natural Resources	Mar. 21, 1995	<u>5,902,900</u>	<u>4,637,566</u>
Northern Development and Mines	Jan. 31, 1995	9,216,000	9,216,000
	Feb. 28, 1995	15,124,800	15,096,928
	Mar. 21, 1995	<u>1,232,000</u>	<u>901,678</u>
		<u>25,572,800</u>	<u>25,214,606</u>

Ministry	Date of Order	Authorized	Expended
		\$	\$
Solicitor General and Correctional Services	Mar. 21, 1995	<u>1,190,000</u>	<u>1,049,338</u>
Transportation	Apr. 4, 1995	<u>1,332,900</u>	<u>427,229</u>
<b>Total Treasury Board Orders</b>		<b><u>631,415,800</u></b>	<b><u>605,403,147</u></b>

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## EXHIBIT FIVE

# Extracts from the Audit Act

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### Definitions

#### 1. In this Act,

“agency of the Crown” means an association, authority, board, commission, corporation, council, foundation, institution, organization or other body,

(a) whose accounts the Auditor is appointed to audit by its shareholders or by its board of management, board of directors or other governing body,

(b) whose accounts are audited by the Auditor under any other Act or whose accounts the Auditor is appointed by the Lieutenant Governor in Council to audit,

(c) whose accounts are audited by an auditor, other than the Auditor, appointed by the Lieutenant Governor in Council, or

(d) the audit of the accounts of which the Auditor is required to direct or review or in respect of which the auditor’s report and the working papers used in the preparation of the auditor’s statement are required to be made available to the Auditor under any other Act,

but does not include one that the *Crown Agency Act* states is not affected by that Act or that any other Act states is not a Crown agency within the meaning or for the purposes of the *Crown Agency Act*;

“Auditor” means the Provincial Auditor;

“Crown controlled corporation” means a corporation that is not an agency of the Crown and having 50 per cent or more of its issued and outstanding shares vested in Her Majesty in right of Ontario or having the appointment of a majority of its board of directors made or approved by the Lieutenant Governor in Council;

“inspection audit” means an examination of accounting records;

“public money” has the same meaning as in the *Financial Administration Act*, R.S.O. 1990, c. A.35, s. 1.

### Audit of Consolidated Revenue Fund

9.—(1) The Auditor shall audit, on behalf of the Assembly and in such manner as the Auditor considers necessary, the accounts and records of

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	the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise.
Audit of agencies of the Crown	(2) Where the accounts and financial transactions of an agency of the Crown are not audited by another auditor, the Auditor shall perform the audit, and, despite any other Act, where the accounts and financial transactions of an agency of the Crown are audited by another auditor, the audit shall be performed under the direction of the Auditor and such other auditor shall report to the Auditor.
Audit of Crown controlled corporations	<p>(3) Where the accounts of a Crown controlled corporation are audited other than by the Auditor, the person or persons performing the audit,</p> <p>(a) shall deliver to the Auditor forthwith after completion of the audit a copy of their report of their findings and their recommendations to the management and a copy of the audited financial statements of the corporation;</p> <p>(b) shall make available forthwith to the Auditor, when so requested by the Auditor, all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the corporation specified in the request;</p> <p>(c) shall provide forthwith to the Auditor, when so requested by the Auditor, a full explanation of work performed, tests and examinations made and the results obtained, and any other information within the knowledge of such person or persons in respect of the corporation.</p>
Additional examination and investigation	(4) Where the Auditor is of the opinion that any information, explanation or document that is provided, made available or delivered to him or her by the auditor or auditors referred to in subsection (2) or (3) is insufficient, the Auditor may conduct or cause to be conducted such additional examination and investigation of the records and operations of the agency or corporation as the Auditor considers necessary. R.S.O. 1990, c. A.35, s. 9.
Information and access to records	10. Every ministry of the public service, every agency of the Crown and every Crown controlled corporation shall furnish the Auditor with such information regarding its powers, duties, activities, organization, financial transactions and methods of business as the Auditor from time to time requires, and the Auditor shall be given access to all books, accounts, financial records, reports, files and all other papers, things or property belonging to or in use by the ministry, agency of the Crown or Crown controlled corporation and necessary to the performance of the duties of the Auditor under this Act. R.S.O. 1990, c. A.35, s. 10.
Annual report	12.—(1) The Auditor shall report annually to the Speaker of the Assembly after each fiscal year is closed and the Public Accounts are laid before the Assembly, but not later than the 31st day of December in each year unless the Public Accounts are not laid before the Assembly by that day, and may make a special report to the Speaker at any time on any

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matter that in the opinion of the Auditor should not be deferred until the annual report, and the Speaker shall lay each such report before the Assembly forthwith if it is in session or, if not, not later than the tenth day of the next session.

Contents of  
report

(2) In the annual report in respect of each fiscal year, the Auditor shall report on,

- (a) the work of the Office of the Auditor, and on whether in carrying on the work of the Office the Auditor received all the information and explanations required;
- (b) the examination of accounts of receipts and disbursements of public money;
- (c) the examination of the statements of Assets and Liabilities, the Consolidated Revenue Fund and Revenue and Expenditure as reported in the Public Accounts, and shall express an opinion as to whether the statements present fairly the financial position of the Province, the results of its operations and the changes in its financial position in accordance with the accounting principles stated in the Public Accounts applied on a basis consistent with that of the preceding fiscal year together with any reservations the Auditor may have;
- (d) all special warrants issued to authorize payments, stating the date of each special warrant, the amount authorized and the amount expended;
- (e) all orders of the Management Board of Cabinet made to authorize payments in excess of appropriations, stating the date of each order, the amount authorized and the amount expended;
- (f) such matters as, in the opinion of the Auditor, should be brought to the attention of the Assembly including, without limiting the generality of the foregoing, any matter related to the audit of agencies of the Crown or Crown controlled corporations or any cases where the Auditor has observed that,
  - (i) accounts were not properly kept or public money was not fully accounted for,
  - (ii) essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to effectively check the assessment, collection and proper allocation of revenue or to ensure that expenditures were made only as authorized,
  - (iii) money was expended other than for the purposes for which it was appropriated,
  - (iv) money was expended without due regard to economy and efficiency, or

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- (v) where procedures could be used to measure and report on the effectiveness of programs, the procedures were not established or, in the opinion of the Auditor, the established procedures were not satisfactory. R.S.O. 1990, c. A.35, s. 12.

Inspection audit

13.—(1) The Auditor may perform an inspection audit in respect of a payment in the form of a grant from the Consolidated Revenue Fund or an agency of the Crown and may require a recipient of such a payment to prepare and to submit to the Auditor a financial statement that sets out the details of the disposition of the payment by the recipient.

Attendance at  
standing Public  
Accounts  
Committee of the  
Assembly

16. At the request of the standing Public Accounts Committee of the Assembly, the Auditor and any member of the Office of the Auditor designated by the Auditor shall attend at the meetings of the committee in order,

- (a) to assist the committee in planning the agenda for review by the committee of the Public Accounts and the annual report of the Auditor; and
- (b) to assist the committee during its review of the Public Accounts and the annual report of the Auditor,

and the Auditor shall examine into and report on any matter referred to him or her in respect of the Public Accounts by a resolution of the committee. R.S.O. 1990, c. A.35, s. 16.

Special  
assignments

17. The Auditor shall perform such special assignments as may be required by the Assembly, the standing Public Accounts Committee of the Assembly, by resolution of the committee, or by a minister of the Crown in right of Ontario but such special assignments shall not take precedence over the other duties of the Auditor under this Act and the Auditor may decline an assignment by a minister of the Crown that, in the opinion of the Auditor, might conflict with the other duties of the Auditor. R.S.O. 1990, c. A.35, s. 17.

Audit working  
papers

19. Audit working papers of the Office of the Auditor shall not be laid before the Assembly or any committee of the Assembly. R.S.O. 1990, c. A.35, s. 19.

















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